NATIONAL HOUSING ACT

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HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

S. 3603

A BILL TO IMPROVE NATION-WIDE HOUSING STANDARDS, PROVIDE EMPLOYMENT AND STIMULATE INDUSTRY; TO IMPROVE CONDITIONS WITH RESPECT TO HOME MORTGAGE FINANCING, TO PREVENT SPECULATIVE EXCESSES IN NEW MORTGAGE INVESTMENT, AND TO ELIMINATE THE NECESSITY FOR COSTLY SECOND-MORTGAGE FINANCING, BY CREATING A SYSTEM OF MUTUAL MORTGAGE INSURANCE AND BY MAKING PROVISION FOR THE ORGANIZATION OF ADDITIONAL INSTITUTIONS TO HANDLE HOME FINANCING; TO PROMOTE THRIFT AND PROTECT SAVINGS; TO AMEND THE FEDERAL HOME LOAN BANK ACT; TO AMEND THE FEDERAL RESERVE ACT; AND FOR OTHER PURPOSES

MAY 16-24, 1934

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NATIONAL HOUSING ACT

WEDNESDAY, MAY 16, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to call, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Wagner, Barkley, Bulkley, Costigan, Bankhead, Adams, Walcott, Couzens, and Steiwer.

The CHAIRMAN. The committee will come to order, please. This morning, gentlemen of the committee, you have before you for consideration the bill S. 3603, to be known as the "National Housing Act." The bill will be made a part of the record.

(The bill is as follows:)

[S. 3603, 73d Cong., 2d sess.]

A BILL To improve nationwide housing standards, provide employment, and stimulate industry; to improve conditions with respect to home mortgage financing, to prevent speculative excesses in new mortgage investment, and to eliminate the necessity for costly second mortgage financing, by creating a system of mutual mortgage insurance and by making provision for the organization of additional institutions to handle home financing; to promote thrift and protect savings; to amend the Federal Home Loan Bank Act; to amend the Federal Reserve Act; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I.—NATIONAL HOUSING ACT

SECTION 1. This title may be cited as the "National Housing Act."

SEC. 2. There is hereby created a body corporate to be known as the "Home Credit Insurance Corporation", which shall be an instrumentality of the United States, and which shall have power to adopt, alter, and use a corporate seal; to sue and be sued, complain and defend, in any court of competent jurisdiction, State or Federal; to prescribe, amend, and repeal, by its board of directors, bylaws, rules, and regulations governing the way in which its general business may be conducted and the powers granted to it may be exercised and enjoyed; and generally to do all things, not inconsistent with the terms of this title, as are customary and usual for corporations to do generally.

The principal office of the Corporation shall be located in the District of Columbia, but there may be established agencies or branch offices in other cities or localities in the United States.

The Corporation shall have a capital stock of not to exceed $200,000,000 subscribed for by the Secretary of the Treasury on behalf of the United States. Payments on such subscription shall be subject to call in whole or in part at any time by the board of directors. Receipts for payment for or on account of such stock shall be deposited with the Treasurer of the United States and shall be evidence of the stock ownership of the United States. In order to enable the Treasury to make such payments when called, the Reconstruction Finance Corporation is authorized and directed, upon written request of the President, to allocate and make available to the Secretary of the Treasury the sum of $200,000,000, or so much thereof as may be necessary: *Provided,*

however, That in lieu of calling upon the Reconstruction Finance Corporation for such funds, the President, in his discretion, is authorized to provide the same, or any portion thereof, by allotment to the Treasury from such funds as may be available or as may hereafter be made available to him for emergency purposes.

The management of the Corporation shall be vested in a board of directors consisting of not less than five nor more than seven persons to be selected by the President from among the officers and directors of any existing board, commission, corporation, independent establishment, or executive department of the United States. Nothing in any other law shall be construed to prevent any such officer or director so selected from serving as a director of the Corporation. Directors shall serve without additional compensation and shall hold office for a term of one year and until their successors are appointed. Whenever a vacancy shall occur among the directors, the person appointed to fill such vacancy shall hold office for the unexpired portion of the term of the director whose place he is selected to fill.

The board of directors shall, without regard to the provisions of any other law, appoint such officers, employees, attorneys, and agents as are necessary for the transaction of the business of the corporation, fix their compensation, define their duties, require bonds of such of them as the board of diretcors may designate, and provide a system of organization to fix responsibility and promote efficiency. The corporation, with the consent of any board, corporation, commission, establishment, executive department, or instrumentality of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this title, and any such information, services, or facilities are hereby authorized to be so made available. The corporation shall be entitled to the free use of the United States mails in the same manner as executive departments of the Government, and shall determine its necessary expenditures under this Act and the manner in which they shall be incurred, allowed, and paid, without regard to the provisions of any other law governing the expenditure of public funds.

SEC. 3. The Corporation authorized and empowered, upon terms to be determined by the board of directors, to insure such banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other financial institutions as may apply for credit insurance and be approved as eligible by the board of directors, against losses which may result to any such financial institution in consequence of loans and advances of credit, and purchases of obligations representing loans and advances of credit, by such institutions made and entered into at any time prior to January 1, 1936, unless a sooner date is set by order of the President, for the purpose of enabling home owners and others to make alterations, repairs, and improvements. The power to insure granted herein shall be limited so that in no case shall the Corporation insure any financial institution against losses amounting to more than 20 per centum of the total amount of loans made by it or credit advanced by it as above provided, nor incur a total liability for such insurance in excess of the aggregate par value of the Corporation's outstanding capital stock. It shall be a condition of the insurance that obligations representing loans and advances of credit to which the insurance applies shall not be for amounts in excess of $2,000, and shall bear interest, have maturities, and contain such other terms, conditions, and restrictions as the Corporation shall determine.

SEC. 4. In order to insure liquidity to financial institutions participating in the renovation and modernization program herein described, the Corporation is authorized and empowered to make loans or agreements to lend upon the security of obligations representing loans or advances of credit to which insurance by the Corporation applies, to and with financial institutions insured under the provisions of section 3 of this title. Such loans or agreements to lend may be made for the full face value of the obligations offered as security and shall be at such rates and upon such terms and conditions as the board of directors shall determine.

SEC. 5. The Corporation is authorized and empowered, at any time prior to July 1, 1937, upon terms to be determined by it, to insure amortized mortgages and like liens on owner-occupied homes or low-cost housing projects, when presented by approved financial institutions. Such insurance by the Corporation shall be based as far as practicable on the mutual principle so as to be self-supporting and involve no greater cost to mortgagors or mortgagees than that

needed to cover the risk involved plus necessary administration expenses. No home mortgages shall be insured which involve an original principal obligation in excess of $20,000, or which involve an original principal obligation in excess of 80 percent of the appraised value of the property offered as security therefor in the case of homes constructed since the passage of this act, or 60 percent of the appraised value of such property in the case of existing homes, provided that, except with the approval of the President, insurance of mortgages on existing homes shall be limited to an aggregate principal obligation on all such mortgages of not to exceed five times the aggregate par value of the Corporation's outstanding capital stock. It shall be the duty of the Corporation to discourage socially undesirable building or purely speculative overbuilding, and the Corporation shall not insure mortgages where in the opinion of the Corporation such socially undesirable building or purely speculative overbuilding will result.

SEC. 6. In order to make available to the Corporation adequate resources for the making of loans and advances under the provisions of section 4 of this act, and for the purposes of section 5 of this act, the Corporation is authorized and empowered, with the approval of the Secretary of the Treasury, to issue and have outstanding its notes, debentures, bonds, or other obligations; such obligations to have such maturities, bear such rates of interest, and contain such other terms and conditions as the Secretary of the Treasury shall approve. Such obligations shall be fully and unconditionally guaranteed both as to principal and interest by the United States and shall be exempt, both as to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States or by any State, or by any political subdivision of either. The Secretary of the Treasury is authorized to purchase such obligations and for that purpose is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include any purchases of the Corporation's obligations hereunder.

SEC. 7. The Corporation shall cause to be made and shall publish from time to time such statistical surveys and legal and economic studies as it shall deem useful to guide the development of housing and the creation of a sound mortgage market in the United States. Expenses of studies and surveys and expenses of publication and distribution of the results of such studies and surveys shall be charged as a general expense of the Corporation.

SEC. 8. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties, as depositary of public money and financial agent of the Government, as may be required of it.

SEC. 9. (a) Whoever makes any statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way any action of the Corporation under this title shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any certificate of claim, note, debenture, bond, or other obligation in imitation of or purporting to be a certificate of claim, or note, debenture, bond, or other obligation of the Corporation; or (2) passes, utters, or publishes or attempts to pass, utter, or publish any false, forged, or counterfeited certificate of claim, or note, debenture, bond, or other obligation purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited; or (3) falsely alters any certificate of claim, or note, debenture, bond, or other obligation issued or purporting to have been issued by the Corporation; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious certificate of claim, or note, debenture, bond, or other obligation issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with the Corporation (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise

intrusted to it; or (2) with intent to defraud the Corporation or any other body politic or corporate, or any individual, or to deceive any officer, auditor, appraiser, or examiners of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized, draws any order or issues, puts forth, or assigns any certificate of claim, or note, debenture, bond, or other obligation, or draft, mortgage judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

(d) No individual, association, partnership, or corporation, except the Corporation, shall hereafter use the words "Home Credit Insurance Corporation" or any combination of these words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall hereafter use as a name under which he or it shall do business, any combination of words, whether including these words or not, which would have the effect of leading the public in general to believe that there was a connection, actually not existing, between such individual, association, partnership, or corporation and the Home Credit Insurance Corporation. Every individual, partnership, association, or corporation violating the provisions of this paragraph shall be guilty of a misdemeanor and shall be punished by a fine of not exceeding $1,000, or imprisonment not exceeding one year, or both.

SEC. 10. The right to alter, amend, or repeal this title is hereby expressly reserved. If any clause, sentence, paragraph, or part of this title shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this title, but shall be confined in its operations to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

TITLE II—NATIONAL ASSOCIATIONS

SEC. 201. Any number of natural persons, not less than five, may associate to establish a national mortgage association for the purpose of (a) lending upon the security of mortgages or such other liens as are commonly given to secure advances on real estate under the laws of the State in which the real estate is located; (b) purchasing, selling, and otherwise dealing in credit instruments secured by such mortgages or liens; (c) borrowing money for any of the foregoing purposes by the issuance of bonds or debentures.

SEC. 202. Every national mortgage association created under the provisions of this title shall have power—

(1) to have succession from the date of its organization until such time as it be dissolved by act of its shareholders or until its franchise becomes forfeited by order of the Federal Home Loan Bank Board as hereinafter provided, or until terminated by either a general or a special Act of Congress, or until its affairs be placed in the hands of a receiver and finally wound up by him;

(2) to have and use a corporate seal;

(3) to sue and be sued, complain and defend in court of law or equity, as fully as natural persons;

(4) to conduct its business in any State of the United States or in the District of Columbia and to have one or more offices in any such States or in the District of Columbia, one of which offices shall be designated as its principal office;

(5) to do all such things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

SEC. 203. Persons desiring to associate themselves together to establish a national mortgage association shall, under their hands, prepare Articles of Association, which shall specifically state—

(1) the name of the association, which shall be approved by the Federal Home Loan Bank Board;

(2) the place where its principal office or place of business is to be located;

(3) the amount of the capital stock; the classes of such stock to be issued; a statement of all or any of the designations and powers, preferences and rights, and the qualifications, limitations, or restrictions applicable to each class of stock; the number of shares and the par value of each of such shares of each class of stock to be issued; the minimum amount of capital with which the association will commence business, which shall be not less than $5,000,000; any provisions which the incorporators may choose to insert with reference to the management of the business and the conduct of the affairs of the

association, and any provisions creating defining, limiting, and regulating the powers of the association, the directors and the stockholders, or any class of stockholders; all such provisions to be subject to the approval of the Federal Home Loan Bank Board;

(4) the fact that the Articles are prepared to enable such persons to avail themselves of the advantages of this title.

SEC. 204. The articles of association shall be signed and sealed by each of the incorporators and shall be acknowledged before a judge of any court of record, or a notary public; and shall be, together with the acknowledgment thereof authenticated by the seal of such court or notary, transmitted to the Federal Home Loan Bank Board, which shall record and carefully preserve the same.

SEC. 205. If the Federal Home Loan Bank Board shall be of the opinion that the incorporators transmitting to it articles of association as hereinbefore provided, are responsible persons and desire to create a national mortgage association for the purpose of doing business as heretofore provided, said Board shall issue or cause to be issued a certificate of approval; and the association shall become, as from the date of issuance of such certificate, a body corporate by the name set forth in its articles of association.

SEC. 206. No association shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Federal Home Loan Bank Board to do so. The Federal Home Loan Bank Board shall not grant such an authorization to commence business until it is satisfied that capital stock of a par value of $5,000,000 has been subscribed for at not less than par and paid for in full in cash or Government securities, and until it is satisfied that all other conditions with respect to the organization of the association which it may impose have been met.

SEC. 207. The amount of bonds or debentures which any national mortgage association may have outstanding at any time shall not be in excess of either (a) fifteen times the aggregate par value of its outstanding capital stock, or (b) the current value of mortgages held by it and insured under the provisions of the National Housing Act, plus the amount of cash and its equivalent and bonds or obligations of the United States which it holds. No national mortgage association shall issue any bonds or debentures except subject to the regulations of, and with the approval of, the Federal Home Loan Bank Board.

SEC. 208. Funds of any national mortgage association not invested in first real-estate liens shall be kept in cash or its equivalent or invested in bonds or other obligations of the United States or bonds or other obligations fully guaranteed as to principal and interest by the United States. National mortgage associations shall keep such reserves in cash or its equivalent as the Federal Home Loan Bank Board shall by regulation determine.

SEC. 209. Subject to such reasonable rules and regulations as the Federal Home Loan Bank Board shall from time to time declare, any national mortgage association shall have full power to, and may, manage properties purchased or turned over to it as the result of foreclosure proceedings. Such properties may be temporarily rented, rehabilitated, modernized, sold, or otherwise dealt in to assure a maximum financial return to the association.

SEC. 210. The Federal Home Loan Bank Board shall have full power to provide for the periodic examination of the affairs of every association organized under the provisions of this title, and shall have full power to terminate the existence of any such association and order its liquidation and the winding up of its affairs in the event that such Board finds the association to be violating any of the provisions of this title or any of the rules and regulations promulgated by such Board under authority granted to it by this title, or in the event such Board finds the association to be conducting its business in an unsafe and unbusinesslike manner. The Federal Home Loan Bank Board shall terminate the existence of any association organized under the provisions of this title and order the liquidation and winding up of its affairs in the event that such Board finds upon examination of the affairs of such association that the value of its assets is less than one-twentieth in excess of its outstanding liabilities and the amount of such deficiency has not been made up within thirty days after the Board has notified the association that such deficiency exists. Expenses of examination of any national mortgage association shall be assessed upon and paid for by the association being examined.

SEC. 211. The Federal Home Loan Bank Board shall have full power to provide by rules and regulations for the liquidation, reorganization, consolidation, or merger of national mortgage associations, including the power to appoint

a conservator or a receiver to take charge of the affairs of any such association, and to require an equitable readjustment of the capital structure of the same, and to release any such association from the control of a conservator or receiver appointed by it and to permit its further operation.

SEC. 212. Such associations, including their franchises, capital, reserves, and surplus, and their loans and income, shall be exempt from all taxation now or hereafter imposed by the United States, and all shares of such associations shall be exempt both as to their value and the income therefrom from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States; and no State or political subdivision thereof shall impose any tax on such associations or their franchise, capital, reserves, surplus, loans, or income greater than that imposed by such State on competing financial corporations, domestic or foreign. Nothing herein shall be construed to exempt the real property of associations from taxation in any State or in any subdivision thereof, to the same extent, according to its value, as other real property is taxed.

SEC. 213. Each national mortgage association, for the purpose of all actions by or against it, real, personal, or mixed, and all suits in equity, shall be deemed a citizen of the State in which its principal office is located.

SEC. 214. When designated for that purpose by the Secretary of the Treasury, any national mortgage association shall be a depositary of public money, except receipts from customs, under such reglations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties as a depositary of public money or financial agent of the Government as may be required of it. Any national mortgage association may act as agent for any other instrumentality of the United States when designated for that purpose by such instrumentality of the United States.

SEC. 215. No individual, association, partnership, or corporation, except associations organized under the provisions of this title, shall hereafter use the words "National Mortgage Association", or any combination of such words, as the name or a part thereof under which he or it shall do business. Every individual, partnership, association, or corporation violating this prohibition shall be guilty of a misdemeanor and shall be punished by a fine not exceeding $100 or imprisonment not exceeding thirty day, or both, for each day during which such violation is committed or repeated. The provisions of section 5243 of the Revised Statutes shall not apply to associations created under this title.

SEC. 216. The right to alter, amend, or repeal this title is hereby expressly reserved. If any clause, sentence, paragraph, or part of this title shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this title, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

TITLE III—INSURANCE OF SAVINGS AND LOAN SAVINGS

DEFINITIONS

SEC. 301. As used in this title—

(a) The term "Insurance Corporation" means the Federal Savings and Loan Insurance Corporation created under this title.

(b) The term "trustees" means the Board of Trustees of the Federal Savings and Loan Insurance Corporation as created under this title.

(c) The term "Board" means the Federal Home Loan Bank Board created under the Federal Home Loan Bank Act.

(d) The term "Corporation" means Home Owners' Loan Corporation created under the authority of Home Owners' Loan Act of 1933.

(e) The term "Insured Institution" means an institution which has insured its accounts as is provided in this title.

(f) The term "insured account" means a share, certificate, or deposit account of a type approved by the Insurance Corporation in an insured institution for an amount for which insurance is provided in this title.

(g) The term "insured member" means a person, firm, or corporation holding an insured account.

(h) The term "default" means an adjudication or other official determination of a court of competent jurisdiction or other public authority appointing a receiver or other legal custodian of any insured institution for the purpose of liquidation.

(i) The term "surplus" means the assets of an insured institution as shown by the adjusted statement of its condition over and above the total of the accounts of its insured members as shown by its books plus any other creditor obligations.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

SEC. 302. (a) There is hereby created the Federal Savings and Loan Insurance Corporation as a corporation under the laws of the United States to have succession until dissolved by Act of Congress, which shall be an instrumentality of the United States, which shall have authority to sue or to be sued in a court of competent jurisdiction, Federal or State, and which shall be under the direction of a Board of Trustees, as is herein provided, and which shall have full power and authority to do all things provided in this title and full power to do all things necessary or incident to the carrying out of the purposes of this title.

(b) The management of the Insurance Corporation shall be vested in a Board of Trustees consisting of five members. The members of the Federal Home Loan Bank Board shall constitute the Board of Trustees of the Insurance Corporation and shall serve as such trustees without additional compensation. One of the members of said Board of Trustees shall be designated as the Chairman.

(c) The Insurance Corporation shall have a capital stock of $100,000,000, divided into shares of $100 each. Such stock shall be subscribed for by the Corporation and the Corporation is hereby authorized to subscribe for and pay for such stock. Said stock may be paid for in bonds of the Corporation. Said stock shall pay dividends which shall accrue if unpaid, at a rate equal to the interest rate on such bonds. The Insurance Corporation shall issue to the Corporation receipts for payments on said stock which shall serve as evidence of the ownership of the same.

(d) The Insurance Corporation shall have power to select, employ, and fix the compensation of such officers, employees, attorneys, or agents as shall be necessary for the performance of its duties under this title, without regard to the provisions of the other laws applicable to the employment or compensation of officers, employees, attorneys, or agents of the United States. No such officer, employee, attorney, or agent shall be paid compensation at a rate in excess of the rate provided by law in the case of the members of the board. The Insurance Corporation shall be entitled to the free use of the United States mails for its official business in the same manner as the executive departments of the Government, and shall determine its necessary expenditures under this title and the manner in which they shall be incurred, allowed, and paid, without regard to the provisions of any other law governing the expenditure of public funds. Nothing in this title or any other law shall be construed to prevent the Insurance Corporation from employment and compensating as its officer, attorney, or employee any officer, attorney, or employee of the board or the Corporation, subject to the approval of the board. The Insurance Corporation, with the consent of the board or of any board, commission, establishment, or executive department or instrumentality of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this title, and any such information, services, or facilities are hereby authorized to be so made available.

INSURANCE OF ACCOUNTS

SEC. 303. In the event of a default by an insured institution, the Federal Savings and Loan Insurance Corporation shall be obligated to pay to each insured member the amount of his insured account, not exceeding 10 per centum in cash and 50 per centum of the remainder within one year and the balance within three years from the date of such default. Insured members are persons, firms, or corporations holding withdrawable or repurchasable shares, investment certificates or deposits in an insured institution. The amount of an insured account shall be its full withdrawable or repurchasable value: *Provided*, That no account shall be insured for more than $2,500. The Insurance Corporation shall promptly, after a default by an insured institution, determine the

insured members and the amount of their insured accounts and make available to them, after notice by mail at their last-known address as shown by the books of the insured institution upon surrender and transfer of the insured account, either a new insured account in an insured institution not in default in an amount equivalent to the insured account, or, at the option of the insured member, the cash herein provided and negotiable non-interest-bearing debentures of the Insurance Corporation for the remainder. The Insurance Corporation shall furnish to all insured institutions a certificate of the fact of such insurance, embodying this section.

ELIGIBLE INSTITUTIONS

SEC. 304. (a) Institutions eligible to insure their accounts under this title shall be confined to members of a Federal home-loan bank which are organized as:

(1) Federal savings and loan associations;

(2) Building and loan, savings and loan, homestead associations, and cooperative banks organized and operated according to the laws of the State, district, or territory in which they are chartered or organized.

(b) Applications to insure accounts as is provided in this title shall contain an agreement to pay the reasonable cost of any necessary examination; and if the insurance is accepted, the reasonable costs of reasonable examinations from time to time for the protection of the Insurance Corporation and other insured institutions, and an agreement to permit such examinations and to furnish any information at its disposal and an agreement for the Insurance Corporation to have access to any examination of such insured institution as made by any public regulatory authority or report of such examination; and if such insurance is accepted, an agreement to pay the insurance premiums fixed as is provided in this title, and such other provisions as may appear to the trustees to be appropriate.

APPLICATIONS FOR INSURANCE AND THE PREMIUM

SEC. 305. (a) Eligible members of Federal Home Loan Banks are authorized as an incident to membership in a Federal Home Loan Bank to apply to the Insurance Corporation for the insurance of their accounts and all Federal Savings and Loan Associations shall make such application, and upon receipt of such application the Insurance Corporation shall make such examinations and investigations as may, in its discretion, appear to be appropriate. The Insurance Corporation shall decline the application of any applicant if its capital is impaired or if its financial condition, its financial policies, or its management are unsafe. The Insurance Corporation may decline the application of any applicant if, in the judgment of the Trustees, the character of its management or its home financing policy is inconsistent with sound and economical home financing or with the purposes of this title.

(b) (1) The insurance premium, payable upon acceptance of insurance by an applicant and annually thereafter until a reserve shall have been built up in the Insurance Corporation to a total of 5 per centum of all insured accounts plus other creditor obligations of all insured institutions, shall be a sum equivalent to one half of 1 per centum of the total amount in all accounts of the insured members, plus any other creditor obligations of the insured institution, which sum may, under regulations made by the Insurance Corporation, be paid on a semiannual basis and at any time such reserve falls below said 5 per centum, such annual premium shall at the next prémium payment date again be continued until the reserve is brought back to said amount. The amount in accounts of insured members and the amount of other creditor obligations may be determined from adjusted statements made within one year.

(2) In addition to the initial and annual premium provided in this subsection, the Insurance Corporation is authorized to assess each insured institution extra insurance premiums not exceeding in any one year a sum equivalent to one fourth of 1 per centum of the total amount in all accounts of the insured members, plus any other creditor obligations until the proceeds of such extra insurance premiums are equivalent to all losses and expenses theretofore ascertained.

(c) After examination, acceptable applicants shall be notified of their acceptance, and upon the payment of the initial insurance premium, and the issuance of a certificate by the Insurance Corporation, shall become insured

institutions and may so represent themselves. No institution not an insured institution shall represent itself as such in any respect whatsoever.

(d) The Insurance Corporation shall give full consideration to all factors entering into the financial condition of applicants and of insured institutions and shall have full power to make such adjustments in their financial statements as the facts may justify.

(e) Any member of any Federal home-loan bank shall have full power as an incident to such membership, upon a majority vote of the board of directors or other governing body, to make application for the insurance herein provided, and to pay the premiums herein provided and to take such other action as may be necessary to carry out the provisions of this title or regulations made thereunder.

(f) Any applicant for insurance, after the first year of the operation of the Insurance Corporation, shall pay an admission fee which, in the judgment of the trustees, is an appropriate contribution.

TERMINATION OF INSURANCE

SEC. 306. (a) Upon a majority vote of all those entitled to vote of the shareholders, stockholders, or other final controlling authority of an insured institution to withdraw from the classification as an insured institution, its relationship as such insured institution shall immediately cease and all rights of shareholders, certificate holders, or depositors under the insurance obligation shall terminate immediately, but the obligation to pay premiums as is provided in this title shall continue for three years.

(b) Upon the withdrawal of any member of a Federal Home Loan bank which is an insured institution, from such membership, its relationship as such insured institution shall cease immediately and all rights of shareholders, certificate holders, or depositors under the insurance obligation shall terminate immediately, but the obligation to pay premiums as is provided in this title shall continue for the next three annual premiums.

(c) The Insurance Corporation shall have power to terminate the insured status of any insured institution at any time for the continued violation of any provision of this title or any regulation made under this title after ninety days' notice in writing from the Insurance Corporation to such insured institution, and in the event of such termination of the insured status of an insured institution, it shall not thereafter advertise or represent itself as an insured institution, but insured accounts existing as of the date of such termination shall continue as insured accounts for a full period of five years, and such institution shall be obliged to continue the payment of the insurance premium herein provided for such period of five years. No insured institution shall: (1) make loans beyond fifty miles from its principal office; (2) issue securities after becoming an insured institution, the form of which has not been approved by the Insurance Corporation, and no form of security or contract shall be approved which guarantees a definite return or a definite maturity; (3) carry on any sales plan or practices or advertise in violation of regulations made by the Insurance Corporation; (4) fail to provide, before paying dividends or other forms of earnings to insured members, for adequate reserves in accordance with regulations made by the Insurance Corporation, which regulations shall require the building of reserves within a reasonable period, not exceeding ten years, up to 5 per centum of all insured accounts, and which regulations shall prohibit the payment of dividends from said reserves or the payment of any dividends, if any losses are chargeable to such reserve; or (5) violate any other reasonable regulation made by the Insurance Corporation for the sound and economic conduct of the business of such insured institution.

LIQUIDATION OF INSURED INSTITUTIONS

SEC. 307. (a) In order to facilitate the liquidation of insured institutions the Insurance Corporation may negotiate with and contract for an insured institution to issue new insured accounts to the insured members of any insured institution in default, or the Insurance Corporation may cause the organization and charter of a new Federal savings and loan association subject to the approval of the board to issue shares to the insured members of such insured institution in default.

(b) In the event a Federal savings and loan association is adjudicated by the board to be in default, the Insurance Corporation shall be appointed as

conservator or receiver and is authorized as such to operate such insured institution, to adjust its management, and to take such action as may be necessary to put it in a sound and solvent condition, or to bring about a merger with another insured institution, or to organize a new Federal savings and loan association or to liquidate its assets, whichever shall appear to be to the best interest of the shareholders therein, and in any event the Insurance Corporation shall pay all valid credit obligations of such Federal savings and loan association, and shall protect the shareholders therein under the insurance provision of this title, and shall give them any additional net benefit which may arise from the orderly disposition of the assets.

(c) In the event any insured institution other than a Federal savings and loan association is in default the Insurance Corporation shall have full power and authority to act as conservator, receiver, or other custodian of such insured institution and its assets, and the services of the Insurance Corporation are hereby tendered to the court or other public authority having the power of appointment. The Insurance Corporation shall, in such cases, have full power to negotiate with other insured institutions and bring about a merger or a sale of assets or the organization of a new Federal savings and loan association or to liquidate the assets of the insured institution, but no action taken shall prevent the carrying out of the insurance obligation herein provided. The Insurance Corporation shall have full power to buy the assets of the insured institution.

(d) In the event an insured institution other than a Federal savings and loan association is in default and the Insurance Corporation is not appointed as conservator, receiver, or custodian it shall nevertheless carry out the insurance obligation and is empowered to bid for the assets of the insured institution in liquidation, or to negotiate for the merger of the insured institution or the transfer of its assets, or any other disposition of the matter in keeping with the interests of all concerned.

(e) In connection with the liquidation of insured institutions in default the Insurance Corporation shall have full power to carry on the business, to collect all obligations to the insured institution, to settle, compromise, or release claims in favor of or against the insured institution, and to do all other things in connection therewith, subject only to the regulation of the court or other public authority having jurisdiction over the matter. Full annual report of the operation of insured institutions in default and in possession of the Insurance Corporation or report of the administration of the assets of such insured institution if such assets have been received by the Insurance Corporation shall be made and filed with the trustees, subject to inspection by any officer of any insured institution or of any other interested party, and if such insured institution operated under State laws or under the laws of the District of Columbia, such annual report shall be filed with the public authority which had jurisdiction over the insured institution.

POWER TO ISSUE OBLIGATIONS AND MAKE INVESTMENTS

SEC. 308. The Insurance Corporation shall have full power to borrow money, to issue bonds, debentures, certificates, or other obligations upon such terms and conditions as the trustees may determine. Funds of the Insurance Corporation shall be deposited in the United States Treasury, or upon the approval of the Secretary of the Treasury, in any Federal Reserve bank, Federal home-loan bank, or invested in obligations of the United States, or in bonds or debentures of a Federal home-loan bank or Home Owners' Loan Corporation or Federal Farm Mortgage Corporation. When designated for that purpose by the Secretary of the Treasury of the United States, the Insurance Corporation shall be a depository of public money under such regulations as may be prescribed by the Secretary of the Treasury and may also be employed as fiscal agent of the United States, and it shall perform all such reasonable duty as depository of public money and fiscal agent of the Government as may be required of it.

TAXATION OF INSURANCE CORPORATION

SEC. 309. All notes, debentures, bonds, or other such obligations issued by the Insurance Corporation shall be exempt, both as to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or

possession thereof, or by any State, county, municipality, or local taxing authority. The Insurance Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

SECRETARY OF THE TREASURY AUTHORIZED TO PREPARE FORMS

SEC. 310. In order that the Insurance Corporation may be supplied with such forms of notes, debentures, bonds, or other obligations as it may need for insurance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Insurance Corporation, to be held in the Treasury subject to delivery, upon orders of the Insurance Corporation. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Insurance Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other obligations.

ANNUAL REPORT TO CONGRESS

SEC. 311. The Insurance Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

SEC. 312. The provisions of Section 8 of Home Owners' Loan Act of 1933, insofar as applicable, are extended to apply to contracts or agreements of Federal Savings and Loan Insurance Corporation as created under this title.

SEC. 313. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

TITLE IV.—AMENDMENTS

SEC. 401. Section 10, subsection (a) of the Federal Home Loan Bank Act is amended to read as follows:

"SEC. 10. (a) Each Federal home-loan bank is authorized to make advances to members, upon the security of home mortgages, such advances to be made subject to such regulations, restrictions, and limitations as the board may prescribe. Any such advance shall be subject to the following limitations as to amount:

(1) If secured by a mortgage insured under the provisions of section 5 of the National Housing Act, the advance may be for an amount not in excess of 90 per centum of the unpaid principal of the mortgage loan.

(2) If secured by a home mortgage given in respect of an amortized home mortgage loan which was for an original term of eight years or more, or in cases where shares of stock, which are pledged as security for such loan, mature in a period of eight years or more, the advance may be for an amount not in excess of 65 per centum of the unpaid principal of the home mortgage loan; in no case shall the amount of the advance exceed 60 per centum of the value of the real estate securing the home mortgage loan.

(3) If secured by a home mortgage given in respect of any other home mortgage loan, the advance shall not be for an amount in excess of 50 per centum of the unpaid principal of the home mortgage loan; in no case shall the amount of such advance exceed 40 per centum of the value of the real estate securing the home mortgage loan."

SEC. 402. The Federal Home Loan Bank Act is further amended by adding at the end of section 10 thereof a new section to be known as section 10a, to read as follows:

"SEC. 10a. At any time prior to July 1, 1936, each Federal home-loan bank is authorized to make advances to members, in order to enable such members and nonmember borrowers to relend such advances for the purpose of financing home repairs, improvements, and alterations. Such advances shall not be subject to the provisions and restrictions of section 10 of this Act, but shall be

made upon the security of, and only upon the security of, notes representing obligations incurred pursuant to, and insurable under, section 3 of the National Housing Act. Advances made under the terms of this section shall be at rates of interest and upon terms and conditions to be determined by the Federal Home Loan Bank Board."

SEC. 403. Section 11 of the Federal Home Loan Bank Act is amended to read as follows:

"SEC. 11. The Federal home-loan bank shall have power, subject to rules and regulations of the board, as follows:

(a) To borrow and give security therefor and to pay interest thereon, to issue debentures, bonds, or other obligations upon such terms and conditions as the board may approve, and to do all things necessary for the carrying out of the provisions of this Act and all things incident thereto.

(b) The board may issue consolidated Federal home-loan bank debentures which shall be the joint and several obligations of all Federal home-loan banks organized and existing under this Act to provide funds for such bank or banks, and such debentures shall be issued upon such terms and conditions as the board may prescribe, but such debentures shall not be issued at any time if any of the assets of any of the Federal home-loan banks are pledged to secure any debts or subject to any lien, and neither the board nor any Federal home-loan bank shall have power to pledge any of the assets of any Federal home-loan bank, or voluntarily to permit any lien to attach to the same while any of such debentures so issued are outstanding. The debentures issued under this section and outstanding shall at no time exceed five times the total paid-in capital of all of the Federal home-loan banks as of the time of the issue of such debentures. It shall be the duty of the board not to issue debentures under this section in excess of the notes or obligations of member institutions held and secured under section 10, subsection (a) of this Act, as amended, by all of the Federal home-loan banks.

(c) At any time that no debentures are outstanding under this Act or to refund all outstanding debentures issued under this section, the Board may issue consolidated Federal home-loan bank bonds which shall be the joint and several obligations of all of the Federal home-loan banks, and which shall be secured and be issued upon such terms and conditions as the Board may prescribe.

(d) The Board shall have full power to require any Federal home-loan bank to deposit additional collateral or to make substitutions of collateral or to adjust equities between the Federal home-loan banks.

(e) Each Federal home-loan bank shall have power to accept deposits made by members of such bank or by other Federal home-loan banks or other instrumentality of the United States upon such terms and conditions as the Board may prescribe, but no Federal home-loan bank shall transact any banking or other business not authorized by this Act.

(f) The board is authorized and empowered to permit, or whenever in the judgment of at least four members of the board an emergency exists requiring such action, to require Federal home-loan banks to rediscount the discounted notes of members held by other Federal home-loan banks or to make loans to, or make deposits with, such other Federal home-loan banks, or to purchase any bonds or debentures issued under this section, and, in any case, upon such terms and conditions as the board may prescribe.

(g) Each Federal home-loan bank shall at all times have an amount, equal to the sums paid in on outstanding capital subscriptions of its members, plus an amount, equal to the current deposits received from its members, and may have additional sums invested in (1) obligations of the United States, (2) deposits in banks or trust companies, (3) advances with maturity not greater than one year made to members or nonmember borrowers, upon such terms and conditions as the board may prescribe, and (4) advances with maturity not greater than one year made to members or nonmember borrowers the amount of whose creditor liabilities (not including advances from the Federal home-loan bank) does not exceed 5 per centum of such member's or nonmember borrower's net assets, which advances may be made without the security of home mortgages or other security, upon such terms and conditions as the board may prescribe.

(h) Such part of the assets of each Federal home-loan bank (except reserves and except sums provided for in subsection (g)) as such bank may deem available therefor, and as are not required for advances to members or non-

member borrowers, may be invested, subject to such regulations, restrictions, and limitations as may be prescribed by the board, in obligations of the United States and in such securities as fiduciary and trust funds may be invested in under the laws of the State in which the Federal home-loan bank is located."

SEC. 404. The Farm Credit Act of 1933 is amended by adding at the end of section 86 thereof, a new section to be known as section 86a and to read as follows:

"SEC. 6a. With the approval of the Governor of the Farm Credit Administration and under rules and regulations to be prescribed by the Production Credit Commissioner, production credit associations organized under the provisions of the Farm Credit Act of 1933 are authorized and empowered (without regard to the provisions of said Act respecting the requirement for the ownership of Class B stock or any other limitations therein contained) to make loans to farmers for the purpose of enabling them to make home alterations, repairs, and improvements; to sell, discount, assign, or otherwise dispose of any loans made by them under the provisions of this section, under such restrictions and limitations as to endorsement and liability as may be approved by the Governor of the Farm Credit Administration; to avail themselves of the benefits of insurance under the provisions of section 3 of the National Housing Act; and to do any and all other things reasonably necessary to carry these provisions into effect."

SEC. 405. Section 24 of the Federal Reserve Act, as amended, is amended by adding to the end of the third sentence thereof the following:

"*Provided, however*, that in case of loans secured by real estate which are insured under the provisions of the Federal Mutual Mortgage Insurance Act, such restrictions as to the amount of the loan in relation to the actual value of the real estate and as to the five-year limit on the terms of such loans shall not apply."

SEC. 406. Section 24 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following:

"Loans made, however, to finance the construction of residential or farm buildings and having maturities of not to exceed six months, even though secured by a mortgage or similar lien on the real estate upon which the residential or farm building is being constructed, shall not be considered as loans secured by real estate within the meaning of this section but shall be classed as ordinary commercial loans, provided that no national banking association shall invest in, or be liable on, such loans in an aggregate amount in excess of 50 percent of its actually paid-in and unimpaired capital. If accompanied by a valid and binding agreement of an acceptable person, association, partnership, or corporation to advance the full amount of the loan upon the completion of the building, notes representing such loans shall be eligible for discount as commercial paper within the terms of the second paragraph of section 13 of the Federal Reserve Act, as amended."

The CHAIRMAN. I had supposed we would first just sit around the table and talk matters over, but it might be best to have a public hearing and have the committee reporter take down what is said and then we will print it. I expected later to get to a public hearing anyhow, but I had thought first this morning we would have an executive session and have an informal sort of talk over the measure. Still we might save time by having a record made of the proceedings and going on regularly.

There are present certain gentlemen who are familiar with the questions involved and who have had to do with the preparation of the bill. Mr. Frank C. Walker, executive director, the National Emergency Council, is here, and there are other gentlemen present who will follow him.

First, I might say that I have a letter from Mr. John H. Fahey, Chairman of the Federal Home Loan Bank Board. He is not able to be present this morning, but will appear a little later. I think it might be well to enter his letter on our record.

MAY 11, 1934.

Hon. DUNCAN U. FLETCHER,
United States Senate, Washington, D.C.

DEAR SENATOR FLETCHER: In discussing the mortgage problem with your committee I ventured to express the opinion that we would not succeed in establishing financial stability and insure the return to prosperity, which our people have a right to expect, until we solve the urban mortgage problem.

A most interesting and comprehensive survey of our debt problem in the United States was financed by the Twentieth Century Fund and published by the MacMillan Co. under the title "The Internal Debts of the United States." A summary of this study was printed in the Graphic Survey in June of last year, and in the belief that it will be of interest to you I send you herewith a reprint of that article.

I would direct your attention especially to the graph on page 4 of this pamphlet showing the distribution of long-time debts in this country. You will note that the mortgage debt against urban real estate is nearly double the debt of the Federal Government and that of our railroads; that it is approximately three times the farm debt and over 30 percent in excess of all State and municipal indebtedness.

It is my conviction that the debt problem as it affects the great mass of our homes of less than $20,000 in value and which represents a total of approximately $21,500,000,000, has not begun to receive the attention which it deserves.

Sincerely yours,

JOHN H. FAHEY, *Chairman.*

Now, Mr. Walker, will you please come forward to the committee table and state your name, address, and occupation, and then you may proceed in your own way to discuss the bill.

Senator BARKLEY. Mr. Chairman, I have read the pamphlet that accompanies Mr. Fahey's letter. I suggest that that pamphlet be inserted at the beginning of these hearings, together with Mr. Fahey's letter.

The CHAIRMAN. Without objection, that will be done.

(The document entitled "Housing Bill" is as follows:)

HOUSING BILL

The greatest amount of present unemployment exists in the building trades. General construction has dropped from an annual pre-depression level of $11,000,000,000 to a present annual level of around $3,000,000,000. In home construction the figures are even more startling. From a $3,000,000,000 annual volume before the depression, home building has dropped to a tenth that amount, or a $300,000,000 volume.

These actual figures acquire added significance when it is remembered that in building construction more than in any other form of activity the preponderant share of the expenditure goes to labor. It is estimated that 3,500,000 of our unemployed are persons who would normally be engaged directly in construction activities and that directly and indirectly the slump in the building industry accounts for more than 5,000,000 of our present unemployed.

The contemplated legislation definitely strives to revive the building trades and to bring them again to a point where they can be an assisting factor rather than a retarding factor in the recovery program.

The proposed legislation constitutes a single interrelated program, but may be considered in five divisions:

(1) Home modernization and repairs.
(2) Mortgage insurance.
(3) Mortgage associations.
(4) Building and loan insurance.
(5) Supplementary amendments to existing legislation.

I. HOME MODERNIZATION AND REPAIRS

A very substantial impetus to recovery and a sizeable relieving of the unemployment situation can be accomplished over the summer months by a Nation-wide program of home modernization and repair. Such a program also leaves

us with a lasting real benefit in the form of better homes and consequent better living conditions. To promote and perfect a program of this sort becomes both a governmental duty and a governmental opportunity.

Such a program calls for two things: First, a campaign to sell the idea to the people as a whole, and, second, proper governmental aid to make participation in the program not only financially possible by the home owners of the country but also financially desirable. The first object is an administrative problem that can presently be handled without the need of new legislation. The second calls for congressional action.

In approaching this second problem of financing a home modernization and repair program on desirable terms, it appears eminently preferable to arrange, if possible, to facilitate the flow of money from its present sources to the point of need without an excessive use of Government financing and the funnelling of funds through the Federal Government and back out into the market. This approach is not only commendable from the standpoint of the National Budget but is important from the standpoint of preserving and stimulating the private money market and private lending institutions so that they can more quickly assume the burden of normal financial operations.

Assuming, then, that it is desirable to finance a home modernization and repair campaign by facilitating direct advances of credit to home owners making repairs from private institutions now having surplus funds, the problem becomes one of the Government aid necessary to do this cheaply and economically. While it is doubtless advantageous, both collectively and individually, for the private citizen to make home improvements at the present time, he cannot be asked to mortgage his future too heavily to accomplish this. He cannot and should not be asked to pay too much and too long in the future for benefits to his home, even though they are desirable and worth while to himself and his family. The socially sound debt for him is one which he can pay out of future income, but on which the payments will not be so heavy as to jeopardize his future. The costs of this type of financing have in the past been excessive. To get these costs down and to control such financing the scheme embodied in section 3 of the bill in general language has been worked out in detail as follows:

A Federal corporation, with headquarters in Washington, D.C., will be created with a capital of $200,000,000 provided by the Federal Government. It will function as follows:

(1) Determine standards for qualifying private financing agencies (commercial and savings banks, finance or acceptance corporations, and building and loan associations) with whom contracts of insurance will be made, insuring them against losses on promissory notes, up to 20 percent of the total face value of all such notes held by them, and provided:

(*a*) Notes have been executed in settlement of the cost of economically justified repairs, alterations, or renovations to private dwellings.

(*b*) The title owner has qualified under such credit standards as to income and moral reputation as may be required by the Home Credit Insurance Corporation, as furnished from time to time to contracted lending agencies and has not incurred an obligation beyond his reasonable ability to pay.

(*c*) Notes conform to such terms as required by contracted lending agencies, but which qualify within the following minimums and maximums:

Minimum principal amount of loan, $100, plus interest for period of loan.

Maximum principal amount of loan, $2,000, plus interest for period of loan.

Minimum monthly payment, $10.

Maximum term of note, 5 years.

Maximum interest, added to the principal cost of the job must not exceed 5 percent true interest per annum on decreasing balances.

(*d*) In the discretion of the Home Credit Insurance Corporation, notes may be made payable in quarterly payments, or in the case of title owners engaged in agriculture, payments may be made to conform to crop income dates, with a minmum of one payment annually.

(*e*) The total cost of the renovating job may include a service fee authorized by the Home Credit Insurance Corporation, in addition to the 5 percent interest provided for above.

The authorized service fees are calculated on the following basis:

Credit investigation and entry on books, $2 per note.

Collection costs, 50 cents per payment.

Supervision and legal costs, one half of 1 percent per annum on amount of job.

The financing charges provided in the plan are about half the lowest costs of similar types of financing available through private sources today, yet, through the cooperation of all parties to the transaction, these charges will be adequate to cover necessary costs.

II. MORTGAGE INSURANCE

Home modernization and repair can serve as an immediate stimulant to the building industry but cannot permanently provide employment for all of those normally engaged in the building trades and associated activities. Eventually new construction must come back into the picture. Even assuming we were overbuilt during the boom, we have had 5 years during which there has been practically a cessation of new building. In isolated areas now there is a sound economic demand for new construction. By the time the home modernization and repair campaign exhausts itself, that demand should be sufficiently substantial to provide continuing employment to those engaged in the building industry. When that time comes a sound mortgage market must exist.

In addition, the effects of the past, now facing us in the form of hardships both to the lender and the borrower in the mortgage field, must be taken care of.

The present mortgage problem is a serious one. Mortgage debts comprise one of the largest single classifications in our national-debt structure. The following table gives some idea of its importance (figures are approximate only and in round numbers):

Mortgage debt:	
Home mortgages	$21,000,000,000
Other urban mortgages	14,000,000,000
Farm mortgages	8,000,000,000
Total	43,000,000,000
Federal debt	26,000,000,000
State and local debt	19,000,000,000
Industrial debt	10,000,000,000
Public-utility debt	10,000,000,000
Railroad debt	14,000,000,000

The $2,000,000,000 of the Home Owners' Loan Corporation was intended and can serve only to care for extreme emergency cases. Obviously the private mortgage market must be encouraged to again cover the mortgage field unless the Government is prepared to take the radical step of assuming the entire mortgage-debt burden. The present private market is frozen and inoperative. The causes of this must be analyzed and remedied.

Three primary causes may be named as contributing to our present mortgage problem:

(1) The debt has been created upon a structure of excessive values and is unsound in relation to either existing or normal values.

(2) The debt has been upon unsound terms from the standpoint of the borrower.

(3) The debt has been upon unsound terms from the standpoint of the lender.

The first problem may be taken care of by the inauguration of a national system of real-estate appraisal and by arranging for the collection and dissemination through a governmental agency of statistical information to guide the mortgage market analogous to the information now furnished through the Federal Reserve System with reference to our general financial market. The possibilities along this line are tremendous and the service is one which should, appropriately, be rendered by the Federal Government.

The second cause of our present mortgage market involves the individual mortgage instruments in that market. From the standpoint of the home owner and wage earner a debt incurred to obtain things for current use and consumption is unsound if it cannot be paid periodically out of current income but must be met at some future date in a lump sum. The self-liquidating character so desirable in a commercial loan can only be approximated in an individual debt by the device of small current periodic payments in the form of amortization. This principle is now rapidly being recognized in the field of mortgage finance but its general acceptance is hampered by the present system of mortgage lending. The so-called "sound" financial institutions generally lend but 40 or 50 percent of the appraised value of the property upon a short-

term instrument payable in full at maturity. This not only necessitates a burdensome expense to the borrower in the form of renewal charges but also forces him into the second-mortgage market if he is to enjoy home ownership on any thing else than a prohibitive down payment to begin with. Second-mortgage instruments, representing as they do the subordinate security and the border-line risk, necessarily involve extremely high rates and charges to the home owner. In addition, they are usually short-term instruments calling for extremely high amortization payments or requiring substantial curtailments of principal if they are to be refinanced. Rates of interest in the second-mortgage market have ranged to as high as 14 to 20 percent, the legal rate being circumvented through the medium of fictitious service charges which are added to the principal.

A sound instrument from the standpoint of the borrower is one which enables him to consolidate his entire obligation in one mortgage and which does not confront him with the perils of refinancing, but which allows him to pay off his principal in monthly payments within his earning capacity over a reasonable period. From his standpoint, therefore, a 10- to 25-year amortized mortgage at reasonable interest rates is the only sound method by which he can acquire the socially desirable status of a home owner.

Such an amortized instrument is also economically desirable in the long run from the standpoint of the lender. While the short-term first mortgage at 40 to 50 percent of the appraised value of the property appears on first thought to be the perfect mortgage instrument to conservative lending institutions, if it must depend for its liquidity upon the possibility of being refinanced at maturity, it must inevitably involve grief to the lender in time of loss of confidence and disruption of the money market such as have characterized the past 5 years. Insofar as it necessitates second-mortgage financing by reason of its low ratio to the appraised value of the property, it likewise is unsound in the long run, since the additional burden of such second-mortgage financing upon the mortgagor seriously impairs his ability to meet his first-mortgage obligation.

The remaining four divisions of the housing legislation are designed to encourage mortgage lending upon a sound amortized instrument. The first of these divisions permits the insuring of such mortgages upon a mutual principle, such insurance being necessary if conservative financial institutions are to be induced to make mortgages of this type at a reasonable rate to the borrower. Because varying conditions in different sections of the country would make the setting forth of the details of the insurance plan in the statute both lengthy and dangerously restrictive, the insurance plan is therein outlined only in general language. The details of the plan are somewhat as follows:

To be eligible for insurance under this plan, a mortgage must conform to the following recognized standards of sound mortgage practice:

(1) The mortgage must be a first lien on an owner-occupied dwelling. (Certain exceptions in the case of slum clearance and low-cost housing projects will be referred to later.)

(2) The mortgage must be held by an acceptable mortgagee capable of servicing it properly.

(3) The mortgage must provide for regular amortization until the loan is completely retired. In general, this amortization period will probably be not more than 20 years. A longer period may be desirable, however, on properties of exceptionally stable value.

(4) The mortgage must be of such a nature that the insuring of it by the Corporation is beneficial to the mortgage market as a whole; and it must conform to such standards in respect of the character and income of the mortgagor as may be established by the board of the Corporation.

(5) The mortgage must be for an amount not in excess of 80 percent of the appraised value of the property in the case of new construction, or 60 percent of the current appraised value in the case of existing dwellings. It must also conform to such other appraisal standards as may be established by the board of the Corporation. Because of the security afforded by the insurance, and by the other standards to which the mortgage must conform, the entire first- and second-mortgage financing can be safely combined in a single instrument. This will eliminate both the need of second-mortgage financing and the disturbing effects of such financing on banking and investment conditions in general.

(6) The net interest return to the lender must not be in excess of 5 percent, except that the Corporation may, where the local mortgage market requires it,

authorized a rate up to a maximum of 6 percent in order to attract mortgage funds.

Except with regard to the requirements just enumerated, the customary relations between mortgagor and mortgagee are fully retained under the operation of the insurance plan. If the mortgage becomes delinquent, the mortgagee may still foreclose, or refrain from foreclosing, as at present, without interference on the part of the Corporation. Should the mortgagee elect to realize on his insurance, however, he must foreclose and turn the property over to the Corporation.

Upon the election of the mortgagee to realize on his insurance, the Corporation will deliver to the mortgagee a debenture or debentures guaranteed as to principal and interest by the United States Government, the amount of such debenture or debentures to equal the unpaid principal on the face of the mortgage as of the date on which title is transferred to the board, plus taxes and other advances specifically authorized by the board of the Corporation. Those debentures will bear the rate of interest (not in excess of 3 percent) agreed upon at the time the mortgage was insured; and the debentures will mature 3 years after the mortgage would have been paid off if it had remained in good standing.

The premium for mortgage insurance under the plan will vary from one half percent to 1 percent per annum of the original face value of the mortgage, according to the risk. This premium will be paid by the mortgagor to the mortgagee in addition to the interest and amortization payments provided in the mortgage. The mortgagee will in turn remit this insurance premium to the Corporation.

The insurance principle involved is similar to mutual life insurance. This premium is considerably in excess of the amount of risk ordinarily involved in mortgages of this type, and hence should eventually be returned in whole or in part to the mortgagor. The premiums thus returned will be paid to the mortgagee to pay off the mortgage for the benefit of the mortgagor. For example, if there were no loss at all, insured mortgages carrying amortization charges calculated to retire the principal in 20 years, would build up, at the end of about 17 years, an insurance reserve sufficient to retire at that time the remaining unpaid principal of the mortgages. In that event the insurance would be terminated and the reserve would be used to take up the mortgages for the benefit of the mortgagors.

The insurance premium, therefore, covers both insurance risk and additional, but unspecified, amortization. On a 20-year amortization contract yielding 5 percent to the lender, the borrower would be required to pay an annual total charge—for interest, amortization, and insurance—equal to 9 percent of the original face value of the loan. This charge is much lower than the present equivalent combined cost of first and second mortgage money, and also lower than the equivalent cost even during favorable periods in the past.

By paying this total annual charge, the borrrower might retire his total mortgage in something over 17 years, and would in any event be guaranteed complete retirement in 20 years. The length of the payment between 17 years and 20 years would depend on the extent of the general losses sustained by the insurance reserve.

The insured mortgages will be segregated at the time of insurance into separate funds containing substantially similar risks. A lending institution, therefore, could benefit by insuring its mortgages even if it desired to confine itself to stricter requirements than those prescribed in the mortgage-insurance law. For example, an institution could confine itself to 60-percent mortgages instead of making loans to the limit of the 80 percent permitted as a maximum for new construction, and know at the time of insurance that its mortgages were segregated with others of the same type. Such mortgages would naturally involve fewer realizations on the governmental guaranty, and therefore would not be required to share in the risk of mortgages made on a higher basis of appraisal. All premiums paid on mortgages of common characteristics as to risk would be kept separate in a single fund, and all costs and realizations incidental to realization on the insurance would be debited and credited to this fund.

From careful calculations made on an actuarial basis, the plan of mortgage insurance here outlined would involve no loss to the Treasury on its guaranty of principal and interest on the debentures issued to replace the defaulted mortgages. As was previously stated, the premium payments on a maximum 20-year amortization mortgage, if no losses are incurred, would be sufficient to

retire the principal of the mortgage commitments in about 17 years, the exact period depending on expenses of operation (which should be relatively low) and on percentage of the reinsurance deduction made by the corporation.

In order to determine the extent to which this period of approximately 17 years might be extended by losses, the following loss assumptions were made the basis of actuarial computations of risk:

(1) That all mortgages in a single fund were insured at the maximum risk—that is, at 80 percent of appraised value.

(2) That 25 percent of the total face value of mortgages in a single fund defaulted.

(3) That the ultimate realization of the fund on these properties in default was only 50 percent of the original appraised value of the properties.

(4) That all the defaults occurred during the earlier years and reached a peak in the fifth year when, owing to the lower extent of amortization, the insured risk was large.

(5) That 2 years were required for the fund to dispose of the defaulted properties.

On this set of assumptions, all of which are far more drastic than past experience would justify as an average calculation of the risk on home mortgages, the fund was still solvent, and would have been terminated some time in the nineteenth year, without drawing on the general reinsurance fund.

The general provisions of the proposed act insuring mortgages on a mutual basis are written also to cover the problem of financing public or semipublic projects for the stimulation of low-cost housing and slum clearance. It is contemplated that the Corporation will establish separate insurance funds in which mortgages on property of this type can be insured under special conditions as to interest, amortization, and insurance to be determined by the Board. This should permit slum-clearance and low-cost-housing projects to obtain financing on a self-insurance basis at much lower rates than has been possible in the past.

III. MORTGAGE ASSOCIATIONS

As a second step in introducing sound basic practices in the mortgage market, it is necessary to introduce the further element of liquidity. The short-term unamortized instrument of the past with all of the evils which it involved, was doubtless based upon a desire to get liquidity in funds invested in mortgages, the theory being that the funds were thereby tied up for a shorter time and if needed at maturity the borrower could be forced to look for refinancing elsewhere. The unsoundness of this theory as a universal practice has been amply demonstrated by the experience of recent years. True liquidity must be secured by other methods. The Federal home loan bank system offers such liquidity to certain types of borrowers and its efficiency in this regard can be and is being increased in the proposed legislation. Further liquidity can be obtained, however, by permitting the chartering of federally supervised mortgage associations. These associations do not involve any startling innovation in the mortgage market. They have sprung into existence, State chartered and uncontrolled, in the past. True, experience with them has been far from satisfactory, but that has been due to the lack of supervision of them rather than to any inherent unsoundness in theory of their existence. Such institutions should not serve on the one hand as a medium for facilitating speculative building, nor on the other hand as a device for abusing the investing public.

Mortgages on owner-occupied homes are of necessity small in individual amount, and preferably should be originated and serviced during their first years by local institutions thoroughly familiar with local conditions and in a position to keep close watch on the condition of the property and the responsibility of the borrower. After these mortgages have been amortized to a conservative figure, however, they will constitute safe and acceptable investments for mortgage associations operating over a larger field, which will be able to obtain cheaply the funds used to purchase such insured mortgages from local institutions at a favorable price and thus release fresh funds for local investment.

If operated in this manner, such mortgage associations will furnish a market for insured mortgages and give to the investment in them the liquidity only secured in theory by the device of a short-term mortgage.

Furthermore, the primary reason for high interest rates (often as high as 8 or 9 percent), renewal fees, etc., on home mortgages in many sections of the

country is the inadequacy of local savings available for mortgage financing in growing communities. Settled communities, on the other hand, where there is less economic demand for new building, are characteristically those in which per capita savings are high and in which there is consequently a large available supply of mortgage funds.

Those associations, by reason of their size, will be located in such settled communities and will provide an attractive outlet for accumulated savings, often in excess of the economically valid local demand for construction, by utilizing them for the purchase of mortgages in communities where funds are scarce.

Rather than competing with insurance companies and other large institutional mortgage lenders, these mortgage associations should, and probably will, perform a distinct service to such lenders. By pooling its mortgages in such an association and taking back in place of them the securities of the association, an insurance company can add an important element of liquidity to its portfolio without any additional expense or loss of income. These associations should, in the immediate future, contribute measurably to the solution of the present frozen condition of the mortgage market.

The legislation authorizing their charter and creation, in addition to granting almost plenary powers to the Federal Home Loan Bank Board in connection with the manner in which their business is conducted, subjects them to the following specific limitations:

(1) They may issue their own debentures only against amortized or self-liquidating mortgages on the safest type of residential properties, insured under the mutual mortgage plan, and for maturities consistent with repayments on these mortgages.

(2) They will be chartered, supervised, and examined by the Federal Home Loan Bank Board and will be required to satisfy the Board that they are in a position to service the insured mortgages held by them.

(3) They will be required to have a minimum paid-in capital of $5,000,000 and their debentures will be limited to a maximum of 15 times their capital.

These limitations will insure the soundness of these institutions. They will not be subject to the hazards arising out of short-term renewal loans on commercial property. They will be large institutions, and therefore sufficiently limited in number to be subject to careful individual supervision. Their size will (1) justify the listing of their bonds or debentures on the security exchanges, thus providing the individual or institutional investor with a readily salable instrument, and (2) insure that their operations receive constant scrutiny by the financial press and the investment services.

The insurance feature of their underlying mortgages will constitute the equivalent of a substantial guaranty of their debentures. Because they will raise their funds in centers where capital is most reasonable, they will be in a position to make lower cost money available for home financing. By the basic terms of their organizations they will of necessity be confined to conservative financial operations and not be subject to stock-selling promotional abuses. Because their investments will be limited to insured mortgages, for which they are in a position to provide adequate servicing, they will not be able to recapitalize properties for the purpose of selling securities nor to act as a mortgage outlet for speculative real-estate affiliates.

IV. INSURANCE OF SAVINGS AND LOAN SAVINGS

No thorough consideration of the mortgage problem can overlook the importance of the building and loan associations and other similar thrift institutions in this field. If the mortgage market is to function again in normal fashion, these institutions must be able to participate and carry their fair share of the burden. The home-mortgage holdings of the principal private lending agencies is, roughly, as follows:

Building and loan associations	$6,500,000,000
Individuals	4,000,000,000
Mutual savings banks	3,500,000,000
Mortgage companies	3,000,000,000
Banks	2,500,000,000
Insurance companies	2,000,000,000

These figures do not represent the true importance of the building and loan associations in the mortgage picture, for while they hold little more than a third of the home mortgages in terms of amounts, by reason of the fact that

they serve the small home owner principally, they hold almost two thirds of the total number of home mortgages.

The advent of deposit insurance for banks has resulted in a substantial deflection of wage earners' savings from investment in building and loan associations to deposit in banks where they will be insured. Not only principles of fair treatment but the economic necessity of keeping funds from flowing out of institutions where they are needed and into institutions where they will presently be unused calls for the erection of a system of insurance for building and loan associations comparable to that presently in operation for the protection of bank depositors.

A satisfactory system of insurance is worked out in detail in title III of the bill. It calls for an annual premium charge of one half percent with possible additional assessments of one fourth percent. This premium charge is to continue until a fund has been built up equal to 5 percent of all insured accounts and thereafter the premium is adjusted to keep the fund at that point. As in bank insurance, accounts are only insured to a $2,500 limit. The insurance corporation is given broad powers to prevent unsound practices in insured institutions.

V. SUPPLEMENTARY AMENDMENTS TO EXISTING LEGISLATION

The proposed amendments to existing legislation are of three types:

(1) Amendments to enable building and loan associations and production credit associations to participate in the home modernization and repair program.

(2) Amendments to let national banks into the mortgage program and to encourage them to lend on insured mortgages.

(3) Amendments to increase the discount facilities now offered by the Federal home-loan bank system.

(4) Amendments to permit the Federal Reserve banks to rediscount sound construction loans.

These amendments are self-explanatory and require little or no comment. Their soundness follows from the soundness of the general program.

The CHAIRMAN. You may proceed, Mr. Walker.

STATEMENT OF FRANK C. WALKER, EXECUTIVE DIRECTOR THE NATIONAL EMERGENCY COUNCIL, WASHINGTON, D.C.

Mr. WALKER. Mr. Chairman and gentlemen of the committee, my name is Frank C. Walker. I am executive director of the National Emergency Council.

The CHAIRMAN. You may proceed with your statement.

Mr. WALKER. Sometime since the President asked me if I would make an attempt to coordinate the various housing activities of the Government. As you gentlemen know much better than I, we have many departments of the Government that are interested in the various branches of housing. For instance, homestead, slum clearance, low-cost housing, planning commissions, home-owners loan, and various other departments of the Government interested directly and indirectly in the housing problem.

In the first instance we got as many as the active heads of departments together as we could and held a series of conferences. Arising out of all this effort it became manifest to us that certain conditions existed that were most obvious. In the first place, the commodity goods situation in the country had improved very considerably, but we found a great lagging in the capital goods industry. We also found insofar as the mortgage market was concerned that it was in a frozen condition. There had been some attempt to aid it through the home-owners' loan, and yet, as you gentlemen know, there is merely an authorization there of 2 billions of dollars, and

as I understand it, there are something like 21 billion dollars or more in home loans alone; that is, in mortgages of that type and character.

We elected to approach this subject along the line of trying to stimulate private capital; to see if we could not work out a plan that would bring about a result that would mean as little cost to the Government as possible, to stimulate private capital, and also to stimulate private industry.

We found, as you know, 9½ million unemployed people throughout the country. We felt that our observations of the facts properly brings us to the conclusion that of that number of unemployed the building trades industry contains the greatest proportion of unemployed.

There are in normal times directly employed in the building industry more than a million people, and indirectly involved there are from 3½ to 5 millions of people. As you gentlemen know, in the last 5 years there have been practically no repairs made, no reparation of any kind throughout the country, and that applies not only to homes but to industry and commerce.

Senator BARKLEY. Did you say during the last year?

Mr. WALKER. No; I said in the last 5 years, or since 1929.

Senator BARKLEY. Very well.

Mr. WALKER. And it is most obvious that so far as repairs and reparation and rehabilitation are concerned there is a most manifest need.

Senator WAGNER. Mr. Walker, I think it is also true that before that time there was an average of about 4 billion dollars a year by way of construction in the country. Isn't that about the figure? Private construction I mean.

Mr. WALKER. Do you mean for homes or in the matter of general construction?

Senator WAGNER. I mean general private construction.

Mr. WALKER. There was an average of $11,000,000,000, on the average, as I understand, and home construction meant approximately an average of about $3,000,000,000. It has gone down now, in the last year I mean, to something like $300,000,000.

Senator COUZENS. Mr. Walker, have you any figures to indicate how much of the $21,000,000,000 is in default?

Mr. WALKER. The Home Owners' Loan Corporation have those figures. We hope to submit to you supporting figures on all of the propositions which we bring before you, that is, in reference to unemployment, in reference to the building industry, in reference to construction over the long period, and with reference to present construction, bringing it down to home construction. And we also have supporting figures to show you what existing mortgages there are in the country, what percentage of those are home loans, and how the home-loan mortgages are broken down into insurance companies, mortgage companies, building and loan associations. We have all these figures ready, and if it is agreeable to you gentlemen as we go along we will present them in their order. I might say that we have four different features of this subject, and I should like to submit those who in my opinion are most expert and best informed on each feature of the bill, to talk to you about each feature.

Senator ADAMS. Mr. Walker, in this $11,000,000,000 figure of construction cost that you referred to, is that the peak cost or is that the average run covering various periods?

Mr. WALKER. I think that was the average prior to 1929. That is, that was construction of all kinds, Senator Adams.

Senator ADAMS. That was what I understood, but I wondered whether it was the 1928–29 costs or the general average.

Mr. WALKER. It covered the average construction of all kinds.

Senator WAGNER. I believe that construction was generally accepted as a barometer of the prosperous condition of the country. That is, when there was employment in the construction industry it was generally regarded as showing that there was general prosperity in the country, and I take it, the reverse is also true.

Mr. WALKER. Yes, sir.

Senator COUZENS. Mr. Walker, in making your general study of this matter at the request of the President, have you ascertained in any way the matter of security of future income of home owners? Or, in other words, have you any figures that would justify the assumption that these loans would be repaid?

Mr. WALKER. I do not know that I quite understand your question.

Senator COUZENS. Well, it is quite obvious that based on an estimate of 10,000,000 unemployed there must be some 30 or 40 millions of our citizens who are lacking in security in the matter of income.

Mr. WALKER. Yes.

Senator COUZENS. They have no future outlook as to what their income may be, no assurance of a future income. I wondered if that factor was taken into consideration when this proposal was submitted.

Mr. WALKER. Yes. Senator Couzens; that has been taken into consideration. And I will say that I do not think there is any great demand at the present time for new housing; nor do I think we should start out and try to stimulate new housing where conditions do not warrant it. Nor do I think that we should start any kind of campaign based upon a "buy now" proposition. But I do feel that there is an absolute demand for rehabilitation, modernization, and repair; one that is patent and obvious.

Senator COUZENS. And that demand comes from people who have some security of income that justifies the undertaking?

Mr. WALKER. Yes. In commerce and industry I think there has been a large amount of deferred maintenance. I think the money has been set aside but has not been used.

Senator COUZENS. But that does not come under this bill, does it?

Mr. WALKER. Yes; a feature of it does, a feature trying to open up your market generally. We are not trying to have the Government step in to aid or assist in any manner in doing any financing for other properties than homes; but if you are going to open up your mortgage market, that will make money available, I think, in general directions, and will increase buying power throughout the country and bring about the result desired in that fashion.

Senator COUZENS. Well, then, the bill does contemplate rehabilitation and repair of buildings other than homes?

Mr. WALKER. The repair campaign does; yes. You see, the repair campaign contemplates setting up a guaranty on the part of the

Government, not to exceed 20 percent, and that applies not only to homes but to any loans of that character up to $2,000 under very fixed and definite conditions.

Senator COUZENS. But that would not contemplate the repair or rehabilitation of hotels or apartment houses or office buildings, and all that kind of thing, would it?

Mr. WALKER. It would be limited to $2,000.

Senator COUZENS. That would not go very far in connection with that type of buildings?

Mr. WALKER. No. But I feel that modernization and repair, a campaign of that kind, would merely be a bridge, would merely start the wheels moving. It would have to be complemented by other and further and additional aid and assistance.

Senator BULKLEY. Mr. Walker, will you tell us a little more about what you mean by the use of the word "campaign"? Just what is contemplated in that direction?

Mr. WALKER. Well, we feel that there is an absolute need for repair and rehabilitation. The only thing the administration contemplated was the providing of a method of financing. I think in order to do that you will have to inform the public, you will have to stimulate bankers, you will have to stimulate all the financial agencies. In other words, I think in that connection it is going to be necessary for us——

Senator BULKLEY (interposing). In what way is it proposed to stimulate them?

Mr. WALKER. Well, according to the plan, this is going to be an innovation for the average commercial banker. Of course, the plan does not contemplate security on the loan. In other words, we are not going to demand mortgages, nor are we going to demand collateral. Loans will go in amounts from $200 up to $2,000 to any individual who is desirous of making repairs. The finance credit companies—and I might say that we had practically all of them down here with us—evolved a plan which they think will work out successfully; and experience shows that in case of loans of this kind the loss is from 2 to 5 percent. Now, in order to stimulate bankers——

Senator BULKLEY (interposing). I do not quite follow you there. Will you make this a little more clear to me? I thought you said a minute ago that this was a new kind of loan, and yet you are referring to experience in the past in the matter of loans of this kind.

Mr. WALKER. It refers to loans repayable in from 1 to 5 years.

Senator BULKLEY. What loans do you refer to as being "loans of this character", where experience has already been had?

Mr. WALKER. Well, the finance and credit companies have had some experience along this line. For instance, the General Motors Acceptance Corporation, and the Johns-Manville Co., and companies like them, like the American Radiator & Standard Sanitary Co., and companies of that kind, have made loans of this character over a period of years.

Senator BULKLEY. Do you mean under 5-year terms?

Mr. WALKER. I do not know that they have gone to a limit of 5 years, but from 1 to 3 years. And it has been worked out by us to 5 years.

Senator BARKLEY. Do you mean to make the facilities available when you refer to a campaign?

Mr. WALKER. Yes, sir.

Senator BARKLEY. You do not mean to go out on a campaign of high-pressure salesmanship and try to persuade people to come in and take advantage of this plan?

Mr. WALKER. Not only does it not contemplate that, but I think it is contemplated to make the rules quite rigorous, so that the loans will be of a kind and character that are good bankable loans. I think if we were to get out into the field and try to stimulate things by conducting a "buy now" campaign, we would be making a very serious mistake. The thing we are trying to do is to stimulate those who can afford to do it and who have an absolute need for repair and rehabilitation.

Senator BARKLEY. Mr. Walker, you were making a general statement a while ago before being interrupted by members of the committee. I think it would be well now to go ahead with that general statement and let us get into our record the general background of this proposition.

Mr. WALKER. In that matter we have the feeling that this question of repair and modernization is just a sort of bridge which will stimulate both private capital and private industry. It is contemplated that a very distinct effort will be made along that line, and we have found quite a response throughout the country from those in the capital and durable goods industries to cooperate. As a matter of fact, from all parts of the country, and from some of the outstanding concerns, there has been a tendency to impress upon us the importance of this matter as shown by their desire to cooperate insofar as costs are concerned. Building costs have gone up very considerably, and rentals have gone down. I think those engaged in the heavier industries realize that if you are going to stimulate building of this character, you do have to get your costs down; and they seem most desirious of bringing about that result, and seem most anxious to try to do it.

Senator BULKLEY. And how will that be done?

Mr. WALKER. Of course, it can only be done by increasing the volume of business. I feel that we must and should give them every cooperation, with a minimum amount of expenditure on the part of the Government. Then, from that point on, it is quite obvious, I think, from the examination we have made of the survey, that housing conditions generally throughout the country are not what they should be. In other words, I think we have all given some attention to feeding and clothing the American people, and we have given very considerable attention to their transportation. But I think we are quite backward insofar as general housing conditions are concerned. It is quite manifest in a good many parts of the country that housing conditions are unsanitary, not healthy; and there has been no general tendency to improve or to modernize. It seems to me these important problems have escaped us entirely over the past few years.

Senator STEIWER. Has there been any comprehensive survey made of physical conditions in the matter of housing?

Mr. WALKER. There have been surveys made quite generally throughout the country, and in some 60——

Senator STEIWER (interposing). By what agency was your survey made?

Mr. WALKER. There have been various surveys made by private agencies and also by the Civil Works Administration. There are C.W.A. men who have made quite a considerable survey, and reports are coming in, which are being carefully studied, and full and complete reports should be in very shortly and available for our use.

Senator COSTIGAN. Mr. Walker, have you summarized the result of those surveys?

Mr. WALKER. They are not all in as yet, but the earlier reports are indicative of quite a demand for improved housing conditions. They are also indicative of some demand for new construction. I wouldn't say that there was a real demand at this time for new construction in the matter of homes, however.

Senator COSTIGAN. Does this bill contemplate new construction?

Mr. WALKER. Yes.

Senator COSTIGAN. All right.

Mr. WALKER. We feel that there is a need for new housing, and that——

Senator BARKLEY (interposing). But that need is spotty throughout the country and not universal, I take it?

Mr. WALKER. I think there is need for worth-while housing, and that there has been a need for it. Whether or not there is a demand, and whether or not there is enough finances to handle that demand, is another matter. But, so far as the need is concerned, I think that housing conditions throughout the country generally are very bad.

Senator WAGNER. Certainly in many municipalities there is a serious need for slum clearance.

Mr. WALKER. Yes; in your city, Senator Wagner, I think it is quite obvious that there has been such need for some time.

Senator WAGNER. Yes.

Mr. WALKER. I think 60 years ago they were talking about housing conditions in New York City, and the very same houses are in existence today and being used by people.

Senator BULKLEY. Does this bill have any bearing on slum clearance?

Mr. WALKER. Yes.

Senator BULKLEY. In what way?

Mr. WALKER. It is going to provide money for slum clearance under the mortgage feature of the bill. Mr. Riefler will go into that quite fully.

Senator BULKLEY. Under the mortgage section of the bill?

Mr. WALKER. Yes. That contemplates slum clearance and low-cost housing.

Senator WAGNER. Mr. Walker, may I ask you this question, for I have not noticed an answer if you have discussed it: How did you happen to reach the 20-percent proportion that the Government was to insure? Is that based upon some statistical knowledge?

Mr. WALKER. Senator Wagner, we had before us surveys of those who have been engaged in that field. We selected those whom we thought were best equipped and who had had the most experience,

and they felt that although the loss was only 5 percent—that is, that experience showed a loss in loans of this character of from 2 to 5 percent—yet they felt that in order to stimulate the average commercial banker—and I think we are going to need some assistance from them, because we have plenty of money lying in our banks. As I say, they felt that most bankers would go along the line of least resistance and follow the custom of banking in the old fashion, with 90-day paper, and that we would not be able to get them to go along with paper of 3 to 5 years, that is amortized with monthly payments, and therefore that something must be done. We felt, however, that if we did give them an encouragement of this kind we might get them to cooperate and loan out their money.

Senator WAGNER. So this guaranty goes beyond what the experience has been in the matter of loss in loans of this character?

Mr. WALKER. Yes. And, of course, we have no definite basis for arriving at a conclusion in the matter of loans of this particular type. The only thing we have is the experience of concerns who have gone along with loans of from 1 to 3 years.

Senator WAGNER. Yes; I see.

Mr. WALKER. And we have examined those loans closely. You see, in loans of this kind the service is quite high, and that is an added feature that makes it rather difficult. And the average commercial institution, commercial banker, does not look upon a loan of this kind any too favorably. He figures that short-term 90-day paper would be much better. But losses based upon a close approach to actual experience, and the expert advice of those who have been engaged in a field somewhat comparable with this, are 5 percent. And none of the men seemed to feel that there will be a real hazard approaching 20 percent at all, that there is no danger of reaching any such figure. Of course, they are going to provide rules and regulations with reference to the paper, so that the loan shall be of a type of a good bankable loan.

Senator BULKLEY. Mr. Walker, did you say we would have a witness who has had first-hand experience with loans of this character?

Mr. WALKER. Yes, sir.

Senator BULKLEY. And who is that?

Mr. WALKER. That is Mr. Deane, associated with General Motors.

Senator COUZENS. What evidence have you that you will be able to interest commercial bankers in these loans?

Mr. WALKER. We have had quite a few bankers down here. And I might say in that connection that we have met with the heads of savings banks, insurance companies, trust and commercial bankers and we have had some 30 or 40 conferences with them, I mean with various types of people who would or should be interested in a plan of this character. And there is not a unanimity of opinion at all with reference to commercial bankers throughout the country going along on this. But——

Senator COUZENS (interposing). That was why I was surprised to hear you include commercial bankers in the group, because I had understood they were not very much interested in this sort of loan.

Mr. WALKER. I think they should be interested, however.

Senator WALCOTT. Isn't it in direct competition with commercial bankers?

Senator BARKLEY. Only theoretically so, I would say.

Mr. WALKER. In a large number of our situations the commercial banker is the one who will have to do it for us, or is the one who should do it for us. In other words, we guarantee to him the loan.

Senator WAGNER. Then if he does not make these loans how will they be made?

Mr. WALKER. There will be a number of private financial agencies engaged in this kind of business who will do it. In a large number of situations, especially in the smaller communities, I think we will have to rely upon commercial institutions.

Senator WALCOTT. Do you mean to make the loans?

Mr. WALKER. Yes; to make the loans directly.

Senator WALCOTT. Then in turn they will borrow of this corporation?

Mr. WALKER. No; we guarantee the loan up to 20 percent; not the specific loan but guarantee them against loss up to 20 percent. That is, a bank's loss will be guaranteed up to 20 percent.

Senator BARKLEY. What effect would that have upon liquidating a bank's deposits and assets, insofar as the ability to loan up to a period of 5 years is concerned?

Mr. WALKER. We have set up a discount feature in this, so that the bank could discount the paper.

Senator BULKLEY. Is it guaranteed up to 20 percent of the loss?

Mr. WALKER. Of the institution's loss on this particular type of loan; yes.

Senator BULKLEY. On each group of loans?

Mr. WALKER. Yes, sir.

Senator BULKLEY. So that if one loan was a complete loss the banker might be reimbursed so long as he had four other good loans?

Mr. WALKER. Yes. It is not on each individual loan.

Senator BULKLEY. It is a blanket group of loans?

Mr. WALKER. Yes, sir.

Senator BULKLEY. Up to 20 percent of his whole loss?

Mr. WALKER. Of his aggregate loss, or his group loss.

Senator BULKLEY. Within 1 year or what other period? Or is it 20 percent of the amount

Mr. WALKER. These loans run from 1 to 5 years. And the guarantee would be for 20 percent of his loss over the entire period.

Senator BULKLEY. Twenty percent of the total amount that he has loaned?

Mr. WALKER. Yes; of his total loss, or I mean of his total loan.

The CHAIRMAN. Twenty percent of the total amount loaned?

Mr. WALKER. Yes, sir.

Senator BARKLEY. If that should be lost?

Mr. WALKER. Yes, sir. Suppose his loss is only 10 percent, then it would cover that.

Senator WALCOTT. Mr. Walker, can you turn to that section of the bill and show it to us?

Mr. WALKER. I might make the suggestion that you hear Mr. Deane on that. He is much more familiar with this feature of the bill, and I think you could get more enlightenment from him. And I had hoped that he would give you his view of the whole plan.

Senator BARKLEY. Well, inasmuch as Mr. Deane is going to give us that information, suppose we wait until he comes before us.

Mr. WALKER. All right.

The CHAIRMAN. I do not understand that the paper which is given to a commercial bank is insured as against loss under this bill and is made eligible for rediscount by the bank with the Federal Reserve. If it is not, how would you be able to consider it as liquid?

Mr. WALKER. I think we contemplate that, Senator Fletcher.

Senator WALCOTT. I do not think this bill does that. I cannot see where it provides that such paper is rediscountable with the Federal Reserve bank.

Senator BULKLEY. It certainly ought not to be rediscountable there unless it is clearly covered.

Mr. WALKER. I think we have an amendment to offer authorizing that.

Senator WALCOTT. That is very important. You haven't got it here in the bill, but you contemplate it.

Mr. WALKER. Yes. Mr. Deane can go over that entire feature of the bill for you.

Senator WALCOTT. All right. I will not take up your time with that.

The CHAIRMAN. You may proceed with your statement, Mr. Walker.

Mr. WALKER. If it is agreeable to you gentlemen of the committee, and I think it would be the most orderly way to proceed, we have approached this proposition from three angles: First, there is the question of repair. Then there is the question of mortgage insurance and mortgage associations, and then there is the question of building and loan accounts. Mr. Deane is quite familiar with the first feature, Mr. Riefler with the second, and Mr. Russell, who is attorney for the Home Owners' Loan Corporation, with the third. And if it is agreeable to you gentlemen of the committee, I think we will get along much better if we take Mr. Deane now and follow with Mr. Riefler, and then let Mr. Russell close.

The CHAIRMAN. Very well; I think that would be a good way to proceed. Mr. Deane, will you come forward to the committee table and take a seat there by Mr. Walker? Give your name, address, and occupation.

STATEMENT OF ALBERT L. DEANE, SPECIAL ASSISTANT TO MR. HARRIMAN OF THE NATIONAL RECOVERY ADMINISTRATION, WASHINGTON, D.C.

Mr. DEANE. Mr. Chairman, my name is Albert L. Deane. I am president of General Motors Holding Corporation and formerly vice president of General Motors Acceptance Corporation, handling this kind of paper, being temporarily identified as special assistant to Mr. Harriman, of the N.R.A.

The CHAIRMAN. What particular feature of the bill have you had to do with? Just tell us about it.

Mr. DEANE. I have assisted in developing the payment feature or the receivable feature of the so-called "short-time need." That is,

in connection with renovation as distinguished from mortgage insurance.

Senator COUZENS. Do I understand from that statement that your experience with the General Motors Corporation has had to do with housing as well as motor cars?

Mr. DEANE. No. That experience had to do largely with automobile financing; that is, time-payment financing in connection with motor cars with the General Motors Acceptance Corporation, and not with housing.

Senator COUZENS. So you have had no experience with this sort of transaction as applied to housing?

Mr. DEANE. No. My experience has been in the matter of financing the motor end rather than the housing end.

Senator COUZENS. Do you think this type of loans over a period of from 1 to 5 years is comparable with motor-car loans?

Mr. DEANE. I think in one sense they are, and in another sense there has been no identical experience. This type of loan as I see it is what has come to be known as producer credit. That is, money advanced to an individual on the basis of his ability and willingness to pay. In that sense it is identical with automobiles or any other type of similar credit. The difference comes in the fact that in most other types of financing some chattel is taken as security, for instance, an automobile in the case of automobile credit; whereas that is absent in this type of credit, because obviously there is nothing to take in connection with repairs or renovations. And as I see it the Government guarantee to the financial institution is in a sense a substitute for that security that is present in other types of financing, in the form of a repossessed chattel.

Senator BARKLEY. Mr. Chairman, I suggest that Mr. Deane go into a comprehensive statement of his reactions to this situation and the reasons for this measure so far as he is identified with it.

The CHAIRMAN. Yes, Mr. Deane. Will you go ahead and give us an idea not only of its value but its practical operation.

Mr. DEANE. Well, as I see it, the problem in connection with getting a larger volume of these necessary repairs and renovations, that we all know have been deferred during the period of the depression; to get them going means providing for the one big problem of making money available to the home owner whose income has been greatly decreased during the period mentioned. It is economically sound from the standpoint that his ownership of the property is being depreciated all the time through the ravages of the elements and the failure to make repairs during the depression, and to obsolescence. He has not been financially able to carry on. Now, if money can be made available to such individuals, on a basis that is sound from the standpoint of their current income and their ability to liquidate the loan, it certainly will be economically sound, because the amount expended by them will add to the value of their home ownership in an amount equal to or greater than they borrow. So I think fundamentally it is sound.

Now, as to the soundness of the method that is being proposed here, it has certainly been demonstrated that money loaned to individuals on the basis of private credit standpoints—and I mean by that the loaning to a man who has the ability to liquidate his loan—is prob-

ably the finest type of credit in the country. I think all banks generally speaking have considered what they call producer credit, that is, money loaned to the manufacturer or the business man for production, is the soundest type of credit. And I think perhaps this depression has demonstrated that money loaned to the individual is the sounder type of credit. I say that because of the experience of private companies handling that same credit from the standpoint of delinquency of payment of loans has a ratio during all this depression far better than the experience of producer loans.

Senator BULKLEY. Will you outline to us the method your company has pursued?

Mr. DEANE. Do you want me to outline the details of the methods of my company?

Senator BULKLEY. I should like to have your personal experience.

Mr. DEANE. My experience in the General Motors Acceptance Corporation has been largely in connection with automobile financing, some oil-burner financing, and some Frigidaire financing.

Senator BULKLEY. Do you think it makes much difference what is financed, as to that matter?

Mr. DEANE. I think the only factor involved from the standpoint of security to the lender is if he has a repossessable chattel that gives security; but so far as the credit extended to the producer is concerned, I think the credit involved and the methods used are identical.

Senator BULKLEY. That is what I would rather hear in detail.

Senator WALCOTT. And, we will say, whether the loan has a type. This does not presuppose anything.

Mr. DEANE. I think I can put that in this way: I think it has been demonstrated that money loaned for any purpose to the individual is sound so long as it is loaned on what has come to be thought of as private credit standards, and they are essentially these: First of all, that the individual shall be one whose reputation in the community is all right from the standpoint of his living up to his obligations, and not assuming obligations that he cannot live up to, and so forth. Secondly, that the amount loaned to him, which he will perhaps liquidate in monthly installments, bears a proper relationship to his total income, whatever that may be.

Senator WALCOTT. And what is that relationship?

Mr. DEANE. Well, roughly—and you will understand that this is quite rough, because every individual's case has certain circumstances surrounding it. But roughly we feel that an individual should not assume obligations to be liquidated monthly in excess of 25 percent of his current income. That is, on the average the ordinary individual will spend 75 percent of his current income for ordinary expenses.

Senator WALCOTT. Well, it depends upon what his income is, doesn't it? What amount of annual income do you now refer to?

Mr. DEANE. Not necessarily. I think on the average that will apply to the man receiving $100 a month as well as to the man receiving more than that. Of course, if you get up to the highest incomes that might not equally apply; but, say, in going up to $3,000 a year there will be very little difference between the man getting $100 a month and the man getting $300 a month, for each on the average will spend from 75 to 80 percent of his income for current

living expenses as differentiated from articles he may buy, like a Frigidaire.

Senator WALCOTT. Do you find out what family he has?

Mr. DEANE. Yes.

Senator WALCOTT. And what demands of that nature are upon him?

Mr. DEANE. The nature and size of his family has a great bearing, because you cannot always go upon the individual's income. You take the family income. Very often a wage earner getting $100 a month you will find has obligated himself for $50 out of the $100. But when you come to look into his situation you will find that there are other members of the family who are wage earners.

Senator WALCOTT. Obligated in what way?

Mr. DEANE. I think for monthly payments of some kind, for articles he is buying. But when you look into his situation you may find that his family income, such as a part of the living expenses, is in part otherwise taken care of. All these factors have to be determined before you find whether his credit is sound or not.

Senator BARKLEY. The ratio would also depend upon the length of time the payments run. If you sell a man an automobile and he is supposed to pay for it within a year or 18 months, which I understand is the limit of that type of credit, the ratio would be different from that of a loan for repairs to his home, that might run for 4 or 5 years. In other words, he would not need to pay so much per month in order to pay it back.

Mr. DEANE. That is right, but I do not think there is where the difference comes in. I think in financing an automobile the length of time granted is always based upon the depreciation rate of the collateral.

Senator BARKLEY. Yes.

Mr. DEANE. The idea being that from the security standpoint that the lender holds, the loan should be liquidated faster than the collateral depreciates.

Senator BARKLEY. On the average of all types of loans 25 percent would be the maximum, then?

Mr. DEANE. I think that would be the maximum; yes. But I do not think time has anything particularly to do with it if you have assurance of a continuation of the monthly income. I think I can make that clearer by citing an investigation made a few years ago on that point. It showed that the average individual, the most of the individuals, in the country are buying something and liquidating it monthly, and the individual conforms his living to a certain percentage of his income. I mean as to his food, clothing, doctor's bills, and so forth. He will assume an obligation of $25 a month, let us say. When he pays off one he will immediately assume another. He has conformed his ordinary living to a certain percentage of his income, and he always uses the difference to buy articles of a larger total unit value than he can pay for with cash. So that, taking out for the moment the several articles that he buys, he has the ability and he does continue to set aside every month a certain amount and pays it out continually.

Senator COUZENS. Regardless of sickness or other matters?

Mr. DEANE. Of course, there are contingencies that will always arise. He will only buy as long as he gets an income.

Senator WALCOTT. And those contingencies in most cases have already arisen in recent years.

Mr. DEANE. Not necessarily. I will say that the total loss ratio from our experience has risen from only one half of 1 percent in our times of prosperity to above seven eights of 1 percent, that being the highest during the whole depression.

Senator COUZENS. Have you any statistics as to how many of these time buyers have gone to the hospital and incurred expenses without being able to pay for it?

Mr. DEANE. No.

Senator COUZENS. I think those statistics are very interesting and are quite high.

Senator BARKLEY. Those contingencies have always to be discounted concerning everybody. We all realize that we are liable to have sickness. We take the appendicitis and have to have the appendix removed. We do not anticipate that, but we know it is possible. I suppose that the general average is based upon a consideration of all the possibilities that might arise in any man's family.

Mr. DEANE. In the proper handling of credit of this type when an individual gets in a position where some contingency has arisen and he cannot make his payments any decent financial institution takes that into consideration and extends a loan or accommodates itself to it.

Senator WALCOTT. How much more in your own company does a man have to pay when he pays on the installment plan than if he pays cash, on an automobile or Frigidaire?

Mr. DEANE. It figures out in terms of true interest per annum; I mean the increasing balance. The average will run about 15 percent of true interest per annum.

Senator COUZENS. Fifteen percent?

Mr. DEANE. Yes.

Senator WALCOTT. Fifteen percent additional cost for a thing he buys and he is paying that as a premium for being right at the edge of the water on his finance?

Mr. DEANE. No; he is paying that as a premium for the use of the article from a year to 18 months before he could use it otherwise.

Senator COUZENS. Are you a strong advocate of consumers' credit?

Mr. DEANE. Very.

Senator BULKLEY. Have you a form that you submit to customers to be filled out to establish their credit?

Mr. DEANE. Oh, yes.

Senator BULKLEY. Would you file one of those with the committee?

Mr. DEANE. Yes; we can do that. I mean we have the forms, of course, in this other type of financing, and we are preparing forms that could be used for this, which would have to be somewhat different.

Senator BULKLEY. Yes. I think it would be interesting to see just how credit is established for these loans.

Mr. DEANE. Yes.

Senator WAGNER. What examination do you make before you extend credit? Do you inquire about the income of the individual that takes it?

Mr. DEANE. Oh, yes. First of all, we got a statement from the borrower showing his income and his family status, as to the number of dependents, and what his position is and how long he has been there, where he worked before, and all the information that would be pertinent to establish his standing.

Senator WAGNER. And as to his employment, regularity of employment?

Mr. DEANE. Yes; regularity of employment. And then we get an independent credit report; that is, a report made by one of the services. There are several institutions furnishing them, who send a man out currently to make a report on his present status, which we check against the statement that he has given us, and on the basis generally of those two things, plus general letters to his employer and others, references, we determine by experience and judgment as to whether or not it is a suitable credit.

Senator BULKLEY. Do you require the borrower ever to carry life insurance?

Mr. DEANE. No.

Senator BULKLEY. Is that an element in establishing credit?

Mr. DEANE. It would be an element of credit if the purchaser carried life insurance, but it is not a very important one.

Senator BULKLEY. Because you can repossess?

Mr. DEANE. That is because we could repossess.

Senator COUZENS. When you establish these credits do you make any discernment between a bootlegger and a gambler or a racketeer?

Mr. DEANE. They are absolutely excluded. I mean no decent finance company will finance a purchaser who is not a decent, respectable American citizen.

The CHAIRMAN. How would this bill operate?

Mr. DEANE. The plan that has been devised is this, that money will be made available; that is, local financing institutions, in which we include savings and commercial banks, building and loan associations, and established finance companies or acceptance corporations, who agree to loan money to individual home owners to be expended by them for repairs, renovations, and so forth, to their property, in an amount not to exceed $2,000, and to be repaid in monthly payments extending not to exceed 5 years, will be insured through the agency that will be created against total losses or loss on the total amount of such receivables purchased by them up to 20 percent. That is, if a given banking institution loaned $100,000 for this purpose they would be guaranteed against loss in excess of $20,000. That means that if they had 10 percent losses or 5 percent losses they would be 100-percent guaranteed, because they would be protected.

Senator BULKLEY. Would they be protected against the amount of loans that had been made up to that time?

Mr. DEANE. Yes; the total amount from inception, building up.

The CHAIRMAN. What would be paid for that insurance?

Mr. DEANE. Nothing. It is contemplated in the bill that is the Government's contribution, whatever the loss is within that 20 percent would be the Government's contribution to make these facilities available to the home owner.

The CHAIRMAN. For which the Government receives nothing?

Mr. DEANE. For which the Government receives nothing.

Senator TOWNSEND. What do you estimate that loss would be?

Mr. DEANE. Well, frankly, I think that is very difficult to answer. The nearest experience we have is the experience of the Johns-Manville Co. and American Radiator Co., who have handled a lot of about this same type of loan money for about this same purpose. However, their loans extend only not to exceed 18 months. Their loss ratio has been 2 percent. Unquestionably the extension of longer time, smaller monthly payments, and all those elements in this plan will increase that loss ratio.

Senator STEIWER. Do they sell on credit without security?

Mr. DEANE. Yes.

Senator STEIWER. As a general practice?

Mr. DEANE. Yes.

Senator STEIWER. Universally?

Mr. DEANE. Well now, wait a minute; the Johns-Manville Co. takes no security. The American Radiator Co. does, depending on on the job; that is, oil burners and things like that they take security. If it is putting in a new heating plant they do not. In a few cases they take a mortgage on a house but that is very seldom. It is not a prerequisite to their financing.

The CHAIRMAN. What rate of interest generally do they charge?

Mr. DEANE. In terms of true interest per annum—I state it in that way because it makes a difference; I am talking now of the true interest on the decreasing balances as it is paid off—it runs to about 20 percent per annum on the average, some of them higher—I mean American Radiator higher.

Senator TOWNSEND. I was trying to develop it under this set-up.

Mr. DEANE. It will have reached, depending on the term—and I am talking about the interest of 5 percent now, plus a service fee which we expect the contractor to absorb—but adding those two together it will range from about 7 percent true interest per annum to a little less than 11 percent true interest per annum, depending on the term.

Senator TOWNSEND. And you do not include commercial banks in your set-up?

Mr. DEANE. Yes.

Senator TOWNSEND. You do?

Mr. DEANE. But I think I should explain this. I think it is rather confusing to talk of this in terms of true interest. The way we have approached that is that the note will carry interest to 5 percent. In addition to that interest rate, which is normally about that on a commercial transaction, let us say, the cost of handling installment sales is quite different from the ordinary bank loan, and we have built that up on the lowest possible average cost that we have been able to determine on this basis: $2 for putting a note on the books. That is about the average cost and that is rather low. That is the credit investigation, the entry on the books, and so forth. Fifty cents per installment, and a half of 1 percent per year for extraordinary expenses.

In calculating on that basis we have excluded what the normal finance company adds, which is whatever the cost of sales promotion is—I mean, getting the business, overhead—because we are assuming

that these already existing financial institutions have their overhead, that they will have no additional cost for overhead, and a profit.

Now, in excluding profit or making no calculation for it, we recognize that a commercial bank borrowing money or getting their money for practically nothing, at a very low cost, and getting an interest rate of 5 percent, obviously has a margin to pay for the normal expenses and probably a profit.

Senator COUZENS. So 5 percent you expect to have net for the money lenders?

Mr. DEANE. Yes. In the case of a finance company, the cost of the money to them will certainly be in the neighborhood of 3 percent, which will give them a 2-percent margin.

Senator BARKLEY. Of course, there is no relationship—certainly no relationship—between the 15 percent true interest that you are talking about on the sale of an automobile or a frigidaire to the consumer.

Mr. DEANE. No.

Senator BARKLEY. No relationship between that rate and what it is expected that he would pay under this bill for money borrowed for repairs.

Mr. DEANE. No; there is not; none whatever.

Senator BARKLEY. If there were it would be prohibitive.

Mr. DEANE. Yes; none whatever.

Senator COUZENS. I understood you to say in this case it runs from 7 to 11 percent.

Mr. DEANE. I did. That is, we have a 5 percent true interest on the note, plus a service fee. Now, it is expected that the contractor will absorb the service fee, but we know that will probably add it into price.

Senator COUZENS. Yes; so that it is just an avoidance of the fact.

Mr. DEANE. So in adding the two things together and adding the two items that I have mentioned, the service fee having been built up in the manner I explained, which we feel covers the legitimate normal cost, figures from about 7 percent per annum to about 10½ percent per annum, depending on the term of the obligation.

Senator WAGNER. How do you control this maximum limitation made by the bank?

Mr. DEANE. No item will be insured that carries any charge in excess of these.

Senator WAGNER. A matter of administration?

Mr. DEANE. That is a matter of administration.

Senator WAGNER. Not provided in the bill itself?

Mr. DEANE. I doubt if it is provided in the bill itself specifically, but that is a matter of administration.

The CHAIRMAN. What do you estimate the demand for this kind of loans will be?

Mr. DEANE. Well, Senator, I do not know that I am capable of answering that. From the figures I have seen and those that I have talked to in connection with this work, I should say that there is probably a billion and a half dollars of deferred maintenance work that should be done. It is quite necessary, probably that much.

Senator STEIWER. In the cities or in the country?

Mr. DEANE. I mean in the country as a whole.

Senator STEIWER. Have you anything to divide that between urban and rural?

Mr. DEANE. I have not seen any figures specifically divided between the urban and rural. How much of that this will loosen up, of course, I think it is difficult to say.

Senator BARKLEY. This does not contemplate loans on the rural homes that are now supposed to be taken care of by the Farm Credit Administration, does it?

Mr. DEANE. It does contemplate that there will be no restriction as between rural homes and urban homes. However, I think it is doubtful if a farmer would use this, because I think other facilities are available to him on a different basis.

Senator BARKLEY. Of course, a farmer whose home is unencumbered might take advantage of it.

Mr. DEANE. Yes.

Senator BARKLEY. But if he has already a first mortgage on his home, his land and his house, with the Farm Credit Administration, he probably would not be able to take advantage of this.

Mr. DEANE. Probably would use the other facilities. However, there is no restriction in this bill, and it is contemplated that it shall be made available to those who desire to use it.

Senator BARKLEY. Whoever advanced money for such home would have to take a second mortgage. He could not take one prior to the one already in existence.

Mr. DEANE. No; but there is no second mortgage, no mortgaging required in this thing. See what I mean?

Senator BARKLEY. Yes; that is true. That is, it is not a specific requirement.

Mr. DEANE. It is not a specific requirement.

Senator COUZENS. Is it a lien upon the property?

Mr. DEANE. No. However, I think, by reason of certain State laws, a building and loan association loaning money under this plan would have to take a second mortgage. The chances are that they would simply take that instrument and put it in their files.

Senator COUZENS. There must be some sort of a lien or other, otherwise the borrower of this $2,000 could sell his property, could he not?

Mr. DEANE. He simply obligates himself in signing the note that he will not extend his present mortgage; sell the property without notification to the lender. That is a certification rather than an obligation.

Senator TOWNSEND. Is that of record?

Mr. DEANE. No; the idea is not to make it of record.

Senator TOWNSEND. He could proceed to sell the property, then?

Mr. DEANE. Oh, that is right. If he did he would, of course, obtain money under false pretenses.

Senator BARKLEY. You have got to assume that these people who are going to take advantage of this are in the main honest anyway.

Mr. DEANE. My experience is that 98 percent of the people are honest.

Senator BARKLEY. A man cannot sequestrate a home or a piece of property or piece of land or house and lot. It is a matter of public

record when he sells it. It is known in the community. I do not see how he could get away with it if he attempted it.

Mr. DEANE. Long experience leads me to believe that the average individual saying he will do something will do it as long as he can. Personally I do not think the risk of a man trying to beat this is very important.

Senator STEIWER. Mr. Deane, I was very much interested in your reference a while ago to the Johns-Manville experience. Can you tell us any more about it? I mean by that, can you tell us to what extent they have extended credit without the security of a specific lien, over how many years, and in what amount in dollars, and how many loan units they have made and what their losses are and what their experience generally has been with respect to that?

Mr. DEANE. Well, I can tell you approximately, but I am talking from memory now, and I haven't the exact figures. I think that they have put out approximately three million, loaned about $3,000,000 for the purpose of modernization, largely having to do with new roofing, insulation of houses, and the use of other types of materials that the Johns-Manville make. However, I should explain that in financing a job where their material is used they do not restrict the operation to the use of their material exclusively. As long as their material bears, I think, 33⅓ percent of the total cost of the job, including labor, they will finance it. So that this financing covers, you might say, general renovating jobs in which their material has some part. I think they put out approximately three million, and I believe they have been doing it for about 4 years, and taking their experience to date, including the years before 1929 and during the depression since, their loss ratio has been just slightly a fraction above 2 percent, their net loss.

Senator STEIWER. Have they loaned owners whose property was already encumbered?

Mr. DEANE. Oh, yes.

Senator STEIWER. They have not distinguished between——

Mr. DEANE. Oh, no.

Senator STEIWER. The owner whose property is encumbered and the owner whose property is unencumbered?

Mr. DEANE. Oh, no.

Senator COUZENS. How long do they make these notes for?

Mr. DEANE. Their maximum time is 24 months, excepting in a few cases, depending on the size of the job. I think they have gone as high as 2 years, but their maximum is normally 18 months, and a great part of their paper is 12 months.

Senator COUZENS. Is that paid off monthly?

Mr. DEANE. It is paid off monthly.

The CHAIRMAN. You were speaking about their material. Are they manufacturers?

Mr. DEANE. They are manufacturers; yes.

The CHAIRMAN. Of what material?

Mr. DEANE. Of roofing, insulating board, this wall board like—you know what I mean?

The CHAIRMAN. Yes.

Mr. DEANE. Insulating board; other insulating material and asbestos products for putting in the walls of houses and insulating

against heat and cold, and also this imitation tile for bathrooms made out of asbestos compound, and articles of that kind.

Senator WAGNER. Mr. Deane, have you any statistics to indicate at all approximately how many cases or what percentage of the loans require the institution of suits for collection?

Mr. DEANE. No; I have not, Senator, off-hand. I can furnish them to you.

Senator WAGNER. The 2-percent loss that you mentioned I had in mind.

Mr. DEANE. The 2-percent loss that I mentioned, I would judge that it meant about a 10-percent salvaging operation. That is 10 percent of the items required salvaging.

Senator BULKLEY. The 2-percent loss is a pure loss?

Mr. DEANE. That is a net loss.

Senator BULKLEY. It does not include legal expenses?

Mr. DEANE. Yes; that includes legal expenses; I mean the direct legal expenses. The fees paid to a lawyer or the court cost of a judgment and that kind of thing are included, but the cost of their own employees working on the collections is not included.

Senator WAGNER. I suppose the loss represents foreclosure where they were wiped out as creditors?

Mr. DEANE. Well, not foreclosure, Senator, because they do not take mortgages.

Senator WAGNER. The loss must have occurred, because the owner could not make his payments.

Mr. DEANE. Oh, yes.

Senator WAGNER. When the loan assumed——

Mr. DEANE. Was not collectible.

Senator WAGNER. Was not collectible.

Mr. DEANE. Yes. They generally reduce it to judgment and then determine whether or not it is collectible.

Senator WAGNER. And then it is a sort of a foreclosure?

Mr. DEANE. That is right. But, of course, he might have a first mortgage or a second mortgage on his property and you could get judgment, but the only way to foreclose his property would be to buy up the mortgage.

Senator WAGNER. That is not really a loss.

Mr. DEANE. Oh, no.

Senator WAGNER. You could not call it a loss unless that foreclosure takes place and the loan is wiped out.

Mr. DEANE. I would like to say that I think this credit must be thought of, not as money loaned on mortgages but as straight consumer credit, on the willingness and the ability of that individual to meet that obligation.

Senator COUZENS. But you cannot repossess in the same way that you can repossess an automobile.

Mr. DEANE. Oh, no; you cannot repossess.

Senator BULKLEY. But does not the Johns-Manville Co. have the benefit of mechanics' liens under State laws?

Senator TOWNSEND. Yes.

Mr. DEANE. No; Johns-Manville do not. What they have to protect themselves against is mechanics' liens. That is, if they advance money——

Senator TOWNSEND (interposing). When they put the material in?

Mr. DEANE. Well, no; they do not directly. They buy these notes from their dealers. Let us say they bought one of these notes of a home owner from their dealer and it later developed that their dealer had not paid the labor and then the laborer filed his mechanic's lien.

Senator BARKLEY. Then in addition to a mechanic's lien filed by labor, any materialman may file a lien?

Mr. DEANE. Yes.

Senator BARKLEY. So that it is more than a mechanic's lien?

Mr. DEANE. That is right; it is more than a mechanic's lien.

Senator BARKLEY. So that the dealer representing Johns-Manville could file under the State laws a materialman's lien or mechanic's lien, as they are called generally, if they sought to take advantage of that?

Mr. DEANE. Yes; but I don't think——

Senator BARKLEY (interposing). As a matter of fact, they do not do it?

Mr. DEANE. I do not think they could in that case, because Johns-Manville pays them the money for the note; and if they got the money, they could not later file a lien for not having received payment.

Senator TOWNSEND. The dealer in turn could file a lien. Who is here the dealer?

Mr. DEANE. Their dealer furnishes the material.

Senator BARKLEY. The dealer furnishes the material, and then he takes a note and Johns-Manville take up the note?

Mr. DEANE. That is right.

Senator BARKLEY. And he is entitled to all the rights of the direct dealer?

Mr. DEANE. That is right.

Senator WAGNER. The loans that are made under this act, if they are made, have not the great risk that, for instance, the Manville loans have? Here you are really loaning to a small home owner. The Manville loans that you speak of spread over construction, do they not, or new building? Does that limit it?

Mr. DEANE. No; the loans that I was talking about that they make are largely of this identical type.

Senator WAGNER. To the home owner?

Mr. DEANE. Yes.

Senator WAGNER. For construction?

Mr. DEANE. No. They loan for repair and modernization.

Senator WAGNER. Were you limiting your discussion to loans for renovation?

Mr. DEANE. Yes.

Senator WAGNER. All right; I see.

Senator BARKLEY. Would you give us the process under which any prospective borrower would go about negotiating this transaction?

Mr. DEANE. The idea is the contractor—and I am using contractor now in a very broad sense—for instance, a master painter would take a job to paint a house and furnish the materials; since the owner is using him he would be a contractor. The contractor would contact the home owner and together they would determine the work that should be done and that he wanted to have done, and

the contractor would make a firm bid for the entire job. He would make out that bid on what might be called a job proposal, which would outline what the work was, what was included with it, and so forth, so that you could identify it and give the price so that you can check the propriety of the price.

On the reverse of that form would be a statement of the home owner giving the credit information about his own status. That would be taken to a local lending institution who had agreed to finance this kind of paper of the contractor. That lending institution would get an independent credit report, and with that independent credit report and the purchaser's statement and the job proposal, they would then determine whether or not they would make the loan. If they determined to make it, they would on the back of the duplicate of the job proposal so certify in writing, that the loan was approved, and that would be their definite commitment, that when the job was completed they would buy the obligation. With that definite commitment of the banking institution the contractor would be prepared to proceed with the work. He would complete the work and secure from the home owner a certificate of completion saying the work had been completed satisfactorily, would sign it himself, would secure a note from the home owner, and take that note down to the banking institution, who would buy the note from him.

In turning it over to the banking institution he would endorse it without recourse, which would guarantee the workmanship to the extent that if the workmanship was proved unsatisfactory and therefore the purchaser refused to pay by reason of the work being unsatisfactory, he would either make it good to the satisfaction of the owner or repurchase the note from the bank.

Thereafter, after that note had been purchased by the banking institution, it would become a transaction between the banking institution and the individual home owner, who would be notified that the bank had bought his note, the payments were to be made at certain times, and the mechanics worked out in a very simple way with a coupon book and what not for him to make payments every month. If the payments were normally made, of course, in the course of time it would pay out. If the item was defaulted the local banking institution would take the normal steps to find out why it was defaulted, get in touch with the purchaser and so forth, and if it got to the point where they determined that collection was impossible to make they would have to take the necessary steps to reduce it to judgment; no necessarily secure judgment, for the reason that under some States today it would take 2 or 3 years to get a judgment. But they would have to take the first steps to reduce it to judgment. The minute they had done that they could make claim on the insurance company. When that claim came in the insurance company would send an adjuster to go over the item, determine that it was entirely in order in every way, that it qualified for the insurance company, that it was a legitimate claim, and if it was in order would approve it and the insurance company would pay the bank a loss, and then the judgment or whatever it was would be assigned to them and they would take whatever looked like the most likely means to secure payment or write the thing off.

Senator WAGNER. Pay the total losses?

Mr. DEANE. Pay the total loss, provided the total losses paid to the banking institution had not exceeded 20 percent of the total loans that had been made.

Senator BARKLEY. There would be no great difference then in the procedure by which any home owner would obtain this credit and that which is now in vogue where any credit is available?

Mr. DEANE. It is absolutely identical.

Senator BULKLEY. If I am a banker and have made some of these loans and find some of the accounts going sour so that I see a loss coming which would exceed 20 percent of all I have loaned, then could I go ahead and make some new loans and bring it up so that the losses would be within 20 percent of the amount loaned and get the entire benefit of this?

Mr. DEANE. That would be possible; yes.

Senator BARKLEY. You speak of banking institutions. I suppose you refer to commercial banks in the community?

Mr. DEANE. Yes.

Senator BARKLEY. But suppose they are not willing to go along with the matter. Suppose they are not willing to make the loan on the amortization plan.

Mr. DEANE. If they are not willing to go along, of course the facilities would not be available in that community.

Senator BARKLEY. But could the borrower or the owner go into some other community?

Mr. DEANE. It would be our idea to get the nearest loaning institution to handle the thing.

Senator WAGNER. How would you be apprised of his application? Do you contemplate keeping in touch with the situation?

Mr. DEANE. No; but through some sort of a local committee that will have to be organized where they can get information and all, we would certainly be apprised of the fact of what institutions, if any, had agreed to buy this paper. If in a given community no such institutions had agreed, obviously we would try to get the nearest institution who had agreed to handle the paper for that community.

Senator WAGNER. Well, I have not read the bill. Do you contemplate any legislation for the creation of that type of Government agency to keep in touch with them?

Mr. DEANE. Oh, this would not be a Government agency. In connection with a campaign, which is covered in the bill, there will have to be some type of a local committee organized to head the thing up, and that committee would be——

Senator WAGNER (interposing). A matter of administration?

Mr. DEANE. A matter of administration.

Senator TOWNSEND. Do you anticipate it would require a large organization to handle this billion and a half?

Mr. DEANE. Very small. Very small.

Senator BARKLEY. Of course, I suppose you have the facilities all ready of the Home Owners' Loan Corporation that might be utilized in connection with the loans on homes. I mean by that there would be a coordination between any existing agencies here and in the field.

Mr. DEANE. That is true. As a matter of fact, in this particular type, this type of renovating loans, if the local institutions cooperate—

and we are assuming that they will, and our investigation leads us to believe that they will—then practically all the work up to the time of it becoming a claim is handled by an existing private institution; and only when it becomes a claim is there any definite action, does the Government guaranty come in, and even the adjustment of those claims can be handled through independent adjusting agencies on the fee basis without the necessity of setting up Government machinery, and my own feeling is from my experience that the organization in Washington necessary to handle that would be very small indeed.

The CHAIRMAN. Would the tendency of this plan be to encourage installment buying or borrowing or going into this on the monthly payment plan?

Mr. DEANE. You mean would the——

The CHAIRMAN (interposing). Would it encourage that? Would that be the effect of the plan?

Mr. DEANE. It would certainly encourage it for this purpose. Now, whether it would carry it beyond that——

Senator BARKLEY. If it does not, it would not be very effective.

Mr. DEANE. I was going to say it would encourage for this purpose; but I think perhaps if you have in mind that it may encourage people to borrow money when they ought not to borrow money I do not think it will.

Senator BARKLEY. It not only is not contemplated but such safeguards have been put around it that make it impossible and would prevent inflation or indebtedness or loans or just the borrowing of money because it is available.

Mr. DEANE. Oh, you see, we will set up in Washington—and it is contemplated that we will set up in Washington—the credit standards to which these items must measure if they are insured, and in that sense we can guard against the unsoundness of the thing; and there is nothing new in the whole procedure.

Senator BULKLEY. Have you those credit standards? Could you put them in the record?

Mr. DEANE. Yes. I haven't them here today, but we could put them in the record. I do not think they should be definite standards. They are more or less guideposts, because credit has to be handled on the basis of individual judgment.

Senator BULKLEY. I think so; but it would be most interesting to put into the record the standards that you would undertake to enforce.

Mr. DEANE. Yes; I think we could put in the record the guideposts that should be followed to make this sound credit.

Senator BARKLEY. It has to be a flexible standard.

Mr. DEANE. It has to be a flexible standard. It cannot be a matter of a definite rule, because every individual case is different. On the other hand, it can be a definite guidepost that should not be disregarded in the passing of credit.

Senator COUZENS. I understand that last year 58 percent of the automobiles were sold on time. Have you any record what percentage this year?

Mr. DEANE. No; I have not. I would say that probably a smaller percentage. During the depression a much smaller percentage had sold on time, obviously, than before the depression, and that is going down gradually, the percentage.

Senator COUZENS. With the recovery of business this year would not that percentage increase?

Mr. DEANE. I think as business recovers that percentage will increase; yes.

Senator BARKLEY. People become more optimistic and they are willing to go in debt?

Mr. DEANE. I don't think it is entirely that. It is because a lot of people haven't got the incomes.

Senator WAGNER. Exactly.

Mr. DEANE. And when you get the group who have the small incomes in the position where they have the security of a continuation of income, then they will often use a portion of that income to buy the things they want.

Senator TOWNSEND. Do you know what the percent was around 1929?

Mr. DEANE. Well, it got up as high at one time as I think 67 percent, the highest.

Senator BANKHEAD. Volume or number?

Mr. DEANE. Of unit volume, number of units.

Senator COUZENS. Would not this be a better undertaking and a more sound enterprise if it had unemployment insurance?

Mr. DEANE. I think that anything is sounder when people have stable incomes.

Senator WAGNER. We have something already drafted to comprehend that whole subject, so if you get into that we will stay here for a day or so. It is very interesting. It is coming some day, too. It is really employment insurance and not unemployment insurance.

The CHAIRMAN. Is there any conflict here on page 5 of the bill, where this language occurs:

> It shall be a condition of the insurance that obligations representing loans and advances of credit to which the insurance applies shall not be for amounts in excess of $2,000.

That means each individual case, I suppose?

Mr. DEANE. Yes.

The CHAIRMAN. $2,000.

Mr. DEANE. Yes.

The CHAIRMAN. And then on page 6 you say—

> No home mortgages shall be insured which involve an original principal obligation in excess of $20,000.

Mr. DEANE. That last provision that you just read has to do with the insuring of mortgages on homes, and the first provision you read has to do with the modernization of credit. I mean they are two different things.

Senator BARKLEY. That harmonizes with the Home Owners' Loan Corporation Act?

Mr. DEANE. Yes.

Senator BARKLEY. Which limits the $20,000 limit in valuation?

Mr. DEANE. Yes; the latter quotation. There is one thing that I overlooked that I would like to bring out, and that is that it is comprehended that in rural communities; that is, on loans for modernization made to those engaged in farming, whose income obviously is not received monthly, but is received in conformity with the sale of

crops, that arrangement will be made for the liquidation of the loan at dates conforming to their crop income and not in monthly payments. That is customary in all of this type of financing.

Senator ADAMS. Mr. Chairman, may I make an inquiry? I have unfortunately had to go to committee and missed part of it, but as I understand your purpose is, of course, the renovation and improvement of existing houses, which, of course, is a good thing. Now, on this particular phase of it: That involves some employment or reemployment, which is a good thing. But in the effort to accomplish those things you are planning to put an encumbrance payable in installments upon the property to be improved. If that is done, may you not deepen our troubles or the troubles of the home owner in incurring an obligation that he is not able to meet in order to accomplish these other purposes?

Mr. DEANE. I think I can answer that this way: In the first place, it is not contemplated that credit will be extended to people who cannot meet the obligation. I mean that is one of the credit standards, and I think experience has shown that it is possible to do that.

In the second case, if the money borrowed is expended to improve his property and the improvement in the value of his property is at least equal to the loan, he makes an investment instead of a debt.

Senator ADAMS. But he makes an investment which is not productive except in comfort and sanitation and those things. It is not a financially productive investment.

Mr. DEANE. It is a financially productive investment in this sense, that if he did not make it his total investment would disappear by depreciation. In other words, you cannot have a house and not keep up the maintenance on it, and if you do not keep up the maintenance the ownership of that house or the value of that house gradually disappears.

Senator ADAMS. Well, of course, you have depreciation in anything.

Mr. DEANE. Well, but I mean if you permit the rate of depreciation to be so fast through lack of keeping it up. And, of course, we all know that if maintenance is not kept up the depreciation accelerates in motion. I would say that is probably the finest investment that a man could make from the standpoint of the return he gets on it, because that return has to be considered, it seems to me, from the standpoint of the satisfaction we get and not in the money we get.

Senator ADAMS. There is no question about that.

Mr. DEANE. Yes.

Senator ADAMS. It is a question as to our financial capabilities at this time.

Mr. DEANE. It is not contemplated that any money will be loaned to individuals where it is not demonstrated in advance with every reasonable certainty that they can meet the obligation they are assuming. That is, if he assumes an obligation to pay $10 a month we would not permit a man to assume that until it was reasonable to suppose that he could comfortably do that and continue to do it.

Senator ADAMS. Of course, you realize from Senator Couzens' question that part of our troubles is the fact that in 1928 people pledged their 1929 income for things which they were consuming in 1928, and in 1929 they pledged their 1930 income for the things they were con-

suming in 1929. The result was when the year came when they had no income, why, they were simply cast adrift financially. That is, the installment purchaser—the anticipation of an income—and when the income stopped it destroyed us.

Mr. DEANE. That is right; and some day we will have to find a way to get the income not to stop. But it seems to me that we are in a particularly favorable period of a cycle to start a thing like this now, because certainly we cannot contemplate that incomes are going lower than they are now.

Senator ADAMS. I hope not.

Mr. DEANE. On the average, they have got to go up, and if they go up this method will be validated.

Senator BARKLEY. Of course, this is a financial investment in this sense: That if the market for real estate ever comes back a property which has been improved by the addition of painting or other repairs will be more salable and more valuable, in addition to the comfort and peace of mind that it gives to the owner.

Mr. DEANE. It seems to me that this angle is very important on your question, Senator: If as a result of this Government guaranty a relatively large amount of money finds its way directly into labor and for materials rather rapidly in the various communities of the country, that stimulation in itself is going to stabilize the incomes in that community and make it sound; I mean, make it more likely that the incomes will continue. It carries within itself the validation of the whole idea. I think that is very important.

Senator BARKLEY. This bill provides that this corporation, the Home Credit Insurance Corporation, shall be manned by a board of directors of not less than 5 nor more than 7, who are to be chosen from among officers and directors of other agencies already in existence, which makes them an ex officio board of directors. In view of the hectic intensity with which most people now in Washington are working on jobs they have already got, do you think that an ex officio board would be able to give it sufficient time to look after its affairs as they ought to be looked after?

Mr. DEANE. Well, I would assume that the function of that board would be largely to determine the fundamental policies involved and see that they were right and that the actual management would be in the hands of some, let us say, general manager. If so, I would say that they probably could have sufficient time to determine such policies.

Senator BARKLEY. I have in mind that there are two or three such ex officio boards that we have created heretofore and later we had to come along and create a board to look after that job by itself.

Senator COUZENS. Such as the Power Commission.

Senator BARKLEY. The Power Commission is one of them.

Senator COUZENS. They will come along with a new board later on—you don't need to worry.

The CHAIRMAN. The capital required in this set-up is 200 million?

Mr. DEANE. Two hundred million for this modernizing end of it.

Senator BANKHEAD. What other capital obligations are there?

Mr. DEANE. Well, the purpose for which that capital will be used is to absorb such losses as there will be under the scheme.

Senator BANKHEAD. I understand; but is there a liability in excess of 200 million for all purposes?

Mr. DEANE. No.

Senator BANKHEAD. That is the total liability under the bill?

Mr. DEANE. That is the total liability in connection with the renovation.

Senator BANKHEAD. I mean for other purposes than renovation?

Mr. DEANE. Well, the other part of the bill there is a contingent liability, but it is very indirect and it takes no capital. The purpose of the $200,000,000 for the renovation credits is to cover losses on those credits exclusively.

Senator BARKLEY. Is not one of the virtues of the proposal that it makes a guaranty and to absorb losses that is calculated to stimulate private capital to get into the picture?

Mr. DEANE. Exactly.

Senator BARKLEY. Which it is not doing now?

Mr. DEANE. For instance, if you can set up losses as high as 10 percent—and I do not think they could be that—but even if they were for a hundred million dollars of direct cost to the Government, a billion dollars would go directly into labor and materials right in every community in this country.

Senator BARKLEY. I want to ask you, to what extent, assuming that this measure fairly succeeds and, as contemplated, it meets with an average success, what do you estimate would be the possible reemployment of labor by reason of the whole set-up, the turning out of capital goods or heavy industries, and the employment of men to work all over the country?

Senator BANKHEAD. You mean direct and indirect labor?

Senator BARKLEY. Direct and indirect labor.

Mr. DEANE. I do not think I can answer that. I do not know whether any of the other gentlemen here have gone into that more deeply than I have or not. Personally, I have not calculated that.

The CHAIRMAN. I think a statement said 5,000,000 people would be employed.

Mr. WALKER. I do not think so, Senator. I think we said that 5,000,000 people were involved directly and indirectly in the construction industry, the building industry.

The CHAIRMAN. Yes.

Mr. WALKER. I think one is just merely hazarding a guess when he says how many people can be brought back to work. That is the way we all feel about it. Under conditions of this character I do not think one could give an intelligent estimate.

Senator COUZENS. Are you going to have any other witnesses this morning, Mr. Chairman?

The CHAIRMAN. Is there any other question of Mr. Deane?

Senator BARKLEY. If there is anything we have overlooked to ask of you, we would like to have information on that.

Mr. DEANE. Well, I cannot think of anything else at the moment that would interest you.

Senator BARKLEY. Your experience leads you to believe that this proposal will be reasonably successful in all of its objects?

Mr. DEANE. My own feeling is that this is perhaps the most constructive thing that has been done in the last 2 years, and I think it will be successful, and I think it is going to act rapidly and directly to put people back to work in the most constructive way

that can be done, to the benefit of the home owner and all. I look upon it as an exceedingly fundamentally constructive move.

Senator WAGNER. Mr. Deane, on this question of employment, why, of course, it is always difficult to arrive at a good estimate of just the number that will be put back to work, but surveys have conclusively established that in the building industry, 80 percent, or 80 cents of every dollar that is spent goes into labor, salaries, and wages.

Mr. DEANE. Yes; goes into labor.

The CHAIRMAN. That is all then, Mr. Deane.

Mr. WALKER. Senator Fletcher, on the question of mortgage insurance and of mortgage associations, if it is agreeable to you gentlemen, I would like to have Mr. Riefler present that feature of the bill.

STATEMENT OF WINFIELD W. RIEFLER, ECONOMIC ADVISER TO THE EXECUTIVE COUNCIL, WASHINGTON, D.C.

The CHAIRMAN. First, Mr. Riefler, state your name and residence and occupation.

Mr. RIEFLER. Winfield W. Riefler, economic adviser to the Executive Council.

You were asking for some statistics on this modernization phase, and I quote just a few of them that are coming in. The Department of Commerce has been making a real property inventory in 60 cities around the country under the C.W.A., on the condition of real property. That material is very extensive, and it is just beginning to be tabulated. About 14 of the 60 are now in for preliminary tabulation, and I had run off this morning some of the percentages on the condition of the property.

For these 14 cities in general over 40 percent of the residential properties were in need of minor repairs; that is painting, papering, and other minor improvements of that kind, and the standards used in this case were the standards prevalent in the community.

From 10 to 25 percent in general were in need of structural repairs, such as roofs, walls, foundation repairs, which, if neglected, would seriously impair the value of the property.

Senator ADAMS. May I ask just how you operate that standard? You take the community and apply the standard in the community and then estimate that the community standard is a certain extent below its own standards?

Mr. RIEFLER. Yes. It is a difficult thing, but that is the basis on which they went. They took people from the community, architects and that sort of thing, from the community, and had them estimate.

Senator COUZENS. What standard would you use in coal-mining fields?

Mr. RIEFLER. It would be very much lower than anywhere else. The number or percentage that were actually unfit for habitation ran from 14 in one down to 8. It was in most cases less than 5 of the structures that were actually unfit for habitation and so reported. As that material comes in more reliable figures will be available.

The CHAIRMAN. Have you any estimate as to additions? For instance, garages and that sort of thing.

Mr. RIEFLER. There will be material on that; yes. This is just the first preliminary tabulation.

Senator COUZENS. Are you with the Department of Commerce?

Mr. RIEFLER. Yes.

Senator COUZENS. Who are you with?

Mr. RIEFLER. I am economic adviser to the executive council.

Senator COUZENS. Mr. Walker's council?

Mr. RIEFLER. Yes.

Senator WAGNER. You were economic adviser, weren't you, or had some connection with the Federal Reserve Board?

Mr. RIEFLER. For 11 years. From 1923 until last July I was with the Federal Reserve Board, and I was loaned by them to the executive council.

Mr. WALKER. I might suggest to you gentlemen Mr. Riefler is chairman of the General Statistical Board, which has a representative in practically all the departments of the Government.

Senator COUZENS. I hope he will be able to consolidate some of them.

Mr. WALKER. We are trying to do that.

Senator BARKLEY. You mean the departments or the Statistical Board?

Senator COUZENS. No; the departments, as a result of his familiarity with all the departments.

Senator BARKLEY. Everybody has been trying to do that for some time, with not very great success.

The CHAIRMAN. Proceed, Mr. Riefler.

Mr. RIEFLER. In approaching this problem the next logical attack on the problem of the depression and unemployment, the focus is clearly the construction industry. We have had a good recovery in the consumers' goods industries. The total volume of demand is not yet to the point where there is any large demand for new factory construction and that sort of thing, added total facilities. There is, however, an enormous deferred demand for maintenance, rehabilitation of all kinds. That includes commercial and industrial properties as well as homes and residences.

So that this program was designed to try to open up that field, and it is a logical field. The potential amount of reemployment and use for materials there is enormous. The question is how fast it can be opened up and what steps we can take to help it. It is peculiarly a field which requires the complete cooperation of private industry from one end to the other.

This program, therefore, is directed at this field of new construction, and particularly for the immediate future at modernization and repair, because there is the widespread demand for work which, if it can be stimulated, will give us our most immediate results.

It also contemplates, however, the opening up of new residential construction where and when and as it can soundly be undertaken and is economically needed.

Senator COUZENS. From your long experience with the Federal Reserve bank have you given any thought to the debt of the Nation being paid off?

Mr. RIEFLER. Yes. In approaching this problem of new construction, especially in the residential field, the debt problem looms very hard. We went through a building boom from 1922 to 1929, in which we added enormously to our mortgage debt. That building boom was not financed in a sound way. In general the mortgages were not amortized mortgages. They were not the kind that are self-liquidating, that pay themselves off. They were frequently renewal mortgages, 3 to 5 years. People expected not to pay them off, but to renew them by refunding in the market. They had high charges and the cost of renewing them when they did come due was very high.

The result was that while conditions were good the debt burden increased, and then when the depression came the lenders became excited about the value of their security and asked for heavy curtailments at the very time when people were least able to curtail. It was the sort of financing which is bound to develop into a very serious crisis.

As a result of that the mortgage market froze around 1930 and 1931. It was impossible to renew mortgages in general in the market. They had to be renewed by the existing creditors, and the whole thing collapsed.

Now we feel that if we are going to get new construction started where and when and as it is needed we will have a facilitate the introduction of a mortgage instrument which will be the soundest thing in the market, the most approved standards, which will be amortizing and paying off. We would like to create a market for that kind of mortgage.

Senator COUZENS. Is not this plan, though, adding another billion and a half to the debts of the Nation?

Mr. RIEFLER. It is adding a billion and a half to the debts or the credits of the Nation. As I like to phrase it for myself, a debt and a credit are both the same thing, the same sort of legal transaction. If a borrower has borrowed more than he can pay it is a debt. It is not economical. It does not regenerate activity. If he is borrowing what he can repay, it becomes a credit; if it adds to the wealth of the Nation it gives employment.

Senator COUZENS. Yes; but in that connection may I ask, have you any information as to the sum total of debt reduction since the depression began?

Mr. RIEFLER. In this field, no; not a great deal. It is very difficult to get it. That is the purpose of the intensive survey of the real property inventory organization. That material will be available in the midsummer, in which we will have extremely accurate figures on that, much better than we have ever had before.

Senator COUZENS. Since the depression have you been able to, in your large past experience, determine the difference between credit and debt?

Mr. RIEFLER. The difference between credit and debt shows up when the difficulty begins.

Senator COUZENS. That is what I am getting at. What I am trying to do now is to indicate the difference between credit and debt at this particular time.

Mr. RIEFLER. No; I have not.

Senator COUZENS. You have no facts, however, to indicate what the proportion would be?

Mr. RIEFLER. No; we have not.

Senator COUZENS. Is there any way of getting at that?

Mr. RIEFLER. It would be very difficult to do it. It is a qualitative judgment. It would be very difficult to do it statistically.

Senator COUZENS. There does not seem much use then to make a segregation between credit and debt if you cannot tell us now.

Mr. RIEFLER. I think that is really the basis for the credit standards that Mr. Deane was describing to you. If the credit is advanced of the type and condition which is shown that it can be repaid, it does not get into difficulty. That certainly is credit.

Senator BARKLEY. But the credit feature of it passes out of the picture before the debt may pass out. As long as it is employing men and buying material it is a credit, but after that it is absorbed and exhausted and it is debt without credit.

Mr. RIEFLER. Not if it is really improving property and giving use.

Senator BARKLEY. Well, possibly that is true.

Mr. RIEFLER. Yes.

Senator COUZENS. But when payment stops it becomes then a debt instead of a credit; is that right?

Mr. RIEFLER. No; I say it is a debt when the payments become onerous and burdensome.

Senator WAGNER. As a result of renovation the upper floor is rented at a higher rent and it is easy to pay up and liquidate it.

Mr. RIEFLER. Yes.

Senator COUZENS. That has not been our experience over the last few years. That is what I am trying to get at.

Senator WAGNER. That has not been done over the last few years.

Mr. RIEFLER. Yes; these figures show a perfectly enormous demand for modernization and renovation. It is also perfectly clear that a great many people are not in a position to assume this year, certainly, the debt burden of doing that. There are many reasons. This program is designed for those who can provide that activity this year to facilitate their undertaking their modernization and renovation. Those that cannot and should not will get added jobs by this and will probably be unable to undertake it the next year or year after.

Senator BARKLEY. In addition to that, if we can assume that the amount of the debt incurred in improving property adds that amount to the value of the property, then the debt and the credit cancel each other out.

Mr. RIEFLER. Correct.

Senator BARKLEY. And according to the doctrine of compensation of Emerson, nothing is ever lost anyway. It is not always true financially.

Senator ADAMS. How far in your consideration did this element enter into it? That is, many people during the boom days overbuilt. They built homes and they built buildings which they could not afford even though they continued their then income and their then employment.

Mr. RIEFLER. Yes.

Senator ADAMS. How far does that enter into your calculation?

Mr. RIEFLER. That is why we feel that the demand for new construction at the present time is local and spotty. At every point

this is safeguarded so that that will not remain. What we want to do is to create conditions in which the building industry can go ahead and provide higher standards of residential facilities on a sound basis to people who can afford it and at costs and prices which they can afford to pay, and we will not get a resumption of that kind of unsound and speculative building cycle.

Senator ADAMS. It is very difficult to meet the problem of the man who has put more into his home than he can possibly pay out. He cannot avoid the depreciation. He cannot meet it.

Mr. RIEFLER. No. To make new mortgage money effective, and to get resumption of activity in the mortgage market, we are proposing to set up an insurance feature to insure the lender on the best type of home-mortgage instrument. These will be model home mortgage instruments, and not distress instruments. In other words, any lender will be able to apply for insurance of a home mortgage which comes within the standards set up. The standards are designed to be the highest type.

In the first place, the lender himself must be one who is satisfactory to the board that is running this. We want to be sure that the lenders are accredited institutions who are capable of servicing a loan properly, and who are not engaged in speculative building.

In the second place, the mortgage itself must be a home mortgage on an owner-occupied home, except for the slum-clearance features which I will describe later. But the general residential home mortgage must be a home mortgage on an owner-occupied home, in which the owner also meets the sound credit standards, similar to those Mr. Deans described in connection with the rehabilitation-credit instrument.

In the third place, it must be an amortized mortgage. It must provide in its terms for a complete repayment over a period of years, so that it will not come up for renewal and it will not be subject to renewal charges of any kind. That is, the owner gets the mortgage and agrees to pay it off. You would remove from the mortgage market the problem of meeting maturities and renewals, and also from the borrower the expenses and fees that go with that.

Finally, because of its insurance feature, because it is an insured mortgage, the interest rate must be lower than now is prevalent in the market. In general we think that this type of mortgage, particularly in the East, where mortgage money is more plentiful, will sell for around a 5-percent interest rate. In certain sections of the country, where money is scarce and mortgage rates are particularly high, we are permitting it to pay as high as 6 percent.

Senator ADAMS. What type of charge, if any, will be made for the insurance?

Mr. RIEFLER. The insurance feature is worked out on a net cost to the borrower. This insurance does not cost the Government anything, except that the Government underwrites the whole transaction. What happens is that the borrower will pay to the lender, who will transmit on to the insurance corporation a charge of usually 1 percent on the original outstanding value of the mortgage each year. That will be segregated in a separate insurance fund. That is a very high insurance rate, but it will be segregated in a separate insurance fund with the insurance premiums of other mort-

gages of similar risk characteristics, the same year of maturity, the same general residential type of property, and the same general locality, and the same appraised value of the property, so that the risks will be segregated. Any loss on the fund will be charged against that particular segregated risk fund.

Senator ADAMS. Though there may not be a liability on the whole fund for that.

Mr. RIEFLER. Yes. But when the mortgages in that fund have been paid off, the excess is turned back to pay off the indebtedness of the borrower, so that he is paying a high rate for his insurance and getting it back. It is a mutual principle.

Senator ADAMS. It is a dividend.

Mr. RIEFLER. He gets a dividend back. That high rate is for the protection of the Government, but in the end it is no more than the actual cost of the insurance. The way this would work is that any lending institution can apply for this insurance on their prime loans. They bring it in, and the mortgage must conform to these requirements—amortization in not more than 20 years; an interest rate in general of not more than 5 percent, although 6 percent will be allowed in those localities where the mortgage market demands it. The property must be of a kind which is beneficial to the market and does not lead to overbuilding in a particular area. The borrower must be an owner-occupant who is of good financial standing in relation to his loan. If that happens, they can insure the property with this Government insurance corporation. The borrower will pay to the lender—the whole insurance is between the lender and the corporation—the lender and the borrower maintain all of their existing relations, except that the mortgagee turns over to the insurance corporation the insurance premium each year. If the property gets into default, the lender can still foreclose or defer foreclosing, as he does at present. There is no compulsion on him to realize on the insurance fund.

If, however, he decides to realize on the insurance fund, he must turn the property over to the Government corporation free and clear, and will thereupon receive a debenture, guaranteed by the Treasury, carrying not more than 3-percent interest, and due 3 years after the mortgage would have matured. In other words, we are not insuring lenders so that they can make money turning over bad loans. They do not get the full insurance out of it.

Senator ADAMS. You are insuring the principal and not the interest.

Mr. RIEFLER. We are insuring the principal and a low rate of interest, enough to cover their reserves, but not enough to make it a profitable operation. At the same time, that debenture which is turned over will be for the principal of the loan as of that date, if it were amortized and paid up to that date, plus permitted outpayment by the mortgagee for taxes. If he has carried taxes for a year or two, and has had permission of the corporation to carry taxes, that might also be covered into the face of the debenture.

Senator ADAMS. Are those details worked out in the bill or are they the plans?

Mr. RIEFLER. These are the plans. These are the rules and regulations. At the same time the mortgagee will submit a certificate of

claim for his extra expenses in connection with foreclosure, and when the property is sold by the insurance corporation, or realized upon, they will honor those certificates of claim if the property gives enough to honor them, and if it does not, they will still honor them up to their own participation in the sale. Suppose a property is mortgaged for $15,000. The mortgage is insured for $10,000. After 5 years this mortgage becomes delinquent. It is then amortized down to, say, $8,000. The mortgagee turns the property over to the corporation and receives a debenture for $8,000. He also puts in a claim for $800 additional costs of foreclosure and expenses incurred in connection with the foreclosure. He will get, on turning over the property on this insured mortgage, a debenture yielding not more than 3 percent and maturing 3 years after the mortgage would have matured—that is, in that case maturing in 18 years—for $8,000. He will also get a certificate of claim for $800.

If the property is sold for $9,000, the insurance fund reimburses itself for $8,000, honors the certificate of claim for $800, and turns $200 over to the original owner. If the property should be sold for only $6,000, however, and the insurance fund takes a loss, they would then honor that certificate of claim for only $600 instead of $800. They would honor it out of the insurance fund, but prorate it with their own participation.

Senator ADAMS. It is not wiped out like a second mortgage.

Mr. RIEFLER. No. The purpose of that is to prevent this insurance from inducing mortgagees to foreclose immediately on any technical delinquency. It is worked out in such a way that the mortgagee gets the same protection if he does not foreclose on a technical delinquency that he would without the insurance, but he also has no protection against carrying an unsound loan too long.

Senator ADAMS. Then you are not providing a Government guaranty for the loans, but an insurance fund.

Mr. RIEFLER. That is it. It is completely an insurance fund. We are proposing that in the case of new construction these loans be insured for 80 percent of the appraised value of the property. That is to eliminate the second-mortgage market. One of the worst features of the speculative boom was the financing of homes through second-mortgage financing, because we could not give our sound trustee institutions a mortgage to cover the complete financing that was sound enough for them to carry. That meant we had a plethora of money for financing at high costs during good times, and when the crash came even good propositions could not be financed, because there was no second-mortgage money. So we feel that it is very much sounder to have all the financing, both that customarily carried by first and second mortgages, in one instrument, and have the borrower pay a premium sufficient to insure the instrument and carry the risk of that second-mortgage financing.

In the case of existing mortgages the bill proposes that the soundest of existing mortgages can also come into this, because we want to get movement and liquidity into the mortgage market. But they can come in at only 60 percent of the appraised value, under the same plan. However, it would not include the 80-percent principle which would cover the second-mortgage financing.

We have had the Treasury Actuary work out the strength of this fund. Assuming that all the mortgages in the particular fund insured were insured up to 80 percent of their appraised value; and assuming that they were 20-year amortized mortgages; assuming that 25 percent of them went into default, and that that default occurred in the first 9 years, with the peak in the fifth year. That is, it occurred when the amortization was smallest, and the commitment of the corporation in the insurance fund was largest. Assuming it took 2 years to turn over the property before they realized on it, and that the realization, when they did realize on the property, was 50 percent of the original appraised value, involving a loss to the fund in every case. Therefore it involves the honoring of this certificate of expense out of the fund rather than out of the proceeds of the property. The fund then is still solvent, and would have had sufficient funds in it to pay off the remaining indebtedness of the 75 percent of the solvent borrowers in the nineteenth year. So that it is a very strong risk fund.

The CHAIRMAN. Are there any other questions?

Mr. RIEFLER. We are also proposing that this same type of insurance can be applied to housing projects, not individual owner-occupied homes but housing projects of a type associated with slum-clearance operations; that is, the limited-dividend corporations, such as are allowed under special provision in several of the States now. We think it will make available to them mortgage money in volume at much lower rates than they can otherwise get. The particular characteristics of those risk funds will follow this same general procedure. However, mortgages on commercial properties, on expensive apartment houses, hotels, and that sort of thing, would not be eligible for insurance.

The second feature of the mortgage plan——

Senator WAGNER. Where do you draw the line? What is eligible and what is not?

Mr. RIEFLER. Everything would have to be accepted by the board at every point here. Nobody has any mandatory rights in the first place; everything would have to be accepted by the board. In the second place, no apartment property could be insured where the cost-per-housing unit was high. The distinction is made by insisting on low cost-per-housing unit.

Senator WAGNER. Do you fix that?

Mr. RIEFLER. That is not fixed in this draft.

Senator BARKLEY. To what extent has the slum-clearance process gone?

Mr. RIEFLER. In which sense?

Senator BARKLEY. I mean how much progress has been made in abolishing the slum sections.

Mr. RIEFLER. Very little.

Senator BARKLEY. And the construction of civilized housing?

Mr. RIEFLER. Very little.

Senator WAGNER. The Reconstruction Finance Corporation, under the authority they had under the act passed toward the close of the Hoover administration—the one that I had the pleasure of introducing—did make some loans in New York.

Mr. RIEFLER. Yes; but the problem is so huge—the problem is terrific in size.

Senator WAGNER. Has not the Public Works Administration made some additional loans to private individuals or corporations for the same purpose?

Mr. RIEFLER. Yes.

Senator WAGNER. But it is small compared to the need.

Mr. RIEFLER. We feel that this device will help to multiply the effectiveness of those funds that have been made available.

Senator WAGNER. In what way do you liberalize?

Mr. RIEFLER. What we are doing is making it possible for these projects to borrow, through this insurance feature, at a much lower rate than they otherwise would be able to borrow in the market, so that if a municipality or a State government, or the Federal Government, wishes to appropriate $50,000,000 to $100,000,000, or a certain amount for direct slum clearance—not for loans on slum clearance but for direct slum clearance, or low-cost housing for industrial urban workers—they will be able to use that appropriation to carry the equity in the property and finance the rest of it directly in the market through this device at a very much lower cost.

Senator WAGNER. Is there any limitation on the interest charge?

Mr. RIEFLER. No.

Senator WAGNER. You remember that the Reconstruction Finance Corporation, before the present administration came in, made loans for self-liquidating projects, but the difficulty with getting loans for self-liquidating projects was that they made the interest so high that very few could qualify, and I thought at the time there was a determined effort not to lend, but to disqualify as many applications as possible. That is the reason it was ineffective.

Mr. RIEFLER. What we are doing in this case, you see, is to set up the standards of the instruments so that the mortgage instrument itself is so promising that it will attract the lowest rate in the market. This provides for private financing, but by offering as available for private investment a mortgage instrument extremely safe, with model characteristics all the way through, and with this insurance feature, insured as to principal, it will attract the lowest rate in the market. The market is now filled with funds looking for investment, but out of the mortgage field, because of the hazards of financing.

Senator ADAMS. Many people bought what they understood were guaranteed mortgages a while back. The guaranteed mortgages, so-called, were sold out in the West——

Senator BANKHEAD. Who guaranteed the guarantor?

Senator ADAMS. That was the omission.

Senator BARKLEY. It turned out that nobody had.

Mr. RIEFLER. The problem there was largely the factor of renewal mortgages. Mortgages were not made on the basis of repayment out of income on the property during its life. They were made for short-term periods, subject to be renewed, or somebody else buying a new mortgage, and the whole thing collapsed.

Senator ADAMS. The guarantors were what were called improperly surety companies.

The CHAIRMAN. Is it contemplated that under this bill any of those guaranty mortgage companies will be baled out?

Mr. RIEFLER. No.

The CHAIRMAN. You were speaking about the projects. What projects do you contemplate will come under this act?

Mr. RIEFLER. You mean not the owner-occupied homes, but these housing projects?

The CHAIRMAN. Yes.

Mr. RIEFLER. Any low-cost housing project offering low rentals to urban workers, which could meet the standards and conditions of sound construction and location, and area, would be eligible.

The CHAIRMAN. No business property?

Mr. RIEFLER. No.

The CHAIRMAN. Only residences and homes?

Mr. RIEFLER. And, in the larger cities, of course, people do not live in individual homes, and there is a place for the apartment type of workers' homes, and, for the larger cities, this contemplates including low-cost apartment types of workers' homes—not the Park Avenue type of apartment, but the model low-cost type.

The CHAIRMAN. You spoke about hotels. Take a case where a man, or a corporation, has been building a hotel, and they have not been able to finish it. They estimate, for instance, that it will take $750,000 to finish the hotel, and if it is finished they feel they have a property worth $2,000,000. Would that sort of thing come under this?

Mr. RIEFLER. No.

Senator WAGNER. You state, Mr. Riefler, that the present mortgage situation, with the mortgage companies, would not in any way be affected, or baled out of the situation, to use the expression of the chairman. Just how is that provided against?

Mr. RIEFLER. This is limited at every point to the individual property presented. If they had a mortgage that was absolutely first class, and a property that was first class, and that met all the conditions, and they recast that mortgage to provide amortization, and a lower interest rate, they could get that mortgage insured if they could assure the Board that they were of the proper financial type to service it, but it would not help them. In each case this is limited to the individual property and the individual home owner, and in no way touching their unsound mortgages.

The CHAIRMAN. Have you any idea of the demand for this sort of operation?

Mr. RIEFLER. The existing mortgage market has about 21 billions of home mortgages in it. To the extent that those are not delinquent and in difficulty, I suppose that all of the borrowers would certainly prefer this type of mortgage. It offers them a lower rate. It offers them freedom from renewals. It offers them greater security. But we are limiting the amount that can be insured, of existing mortgages, to $1,000,000,000, so that I should think that there is no question that there is, in the existing mortgage market, a full demand that will absorb that full billion dollars.

Senator BARKLEY. Does the 21 billion include rural property?

Mr. RIEFLER. No; it is urban property.

Senator BARKLEY. Urban altogether?

Mr. RIEFLER. Yes.

Senator BARKLEY. That is what I thought. The $1,000,000,000 means that no more than that amount shall be out at any one time.

Mr. RIEFLER. On existing mortgages. We are putting no limit on the new financing. At the present time it is very difficult to finance new construction. The second-mortgage market is completely dead, and it is difficult, and in many places impossible, to get first-mortgage money, and then only under extremely rigorous terms, and very low percentages. So that we are providing here, as far as new construction is concerned, no limitations at the present time except the limitations of the standards. The standards must be extremely high. But we are offering in this to provide a financial instrument to finance all legitimate new residential construction that falls within these standards.

Senator WAGNER. And you loan up to what point?

Mr. RIEFLER. Mortgages can be insured up to 80 percent of the appraised value, so that there will not be any need of second-mortgage financing. One institution, if it wishes—it does not have to—can carry the whole loan, and have it insured, if it is on new property where you can make a much more careful check of your appraisal, and the property falls within the qualifications and high standards imposed.

Senator WAGNER. You probably know—I am sure you do—that there were a great many applications made to the Public Works Administration for loans by private individuals or corporations, for the purpose of building low-cost housing, and that only a very insignificant percentage of those loans were passed. The rest were refused, and in many cases I was informed that it was because it was obvious that it was merely a real-estate scheme. In view of the small percentage that qualified there, what is your basis for believing that a larger percentage will qualify if this bill is passed?

Mr. RIEFLER. In the first place, this applies widespread. What we are trying to do is to make it possible for any accredited mortgage lending agency anywhere in the country to qualify and come in. We would get much wider coverage, in the first place. In the second place, my personal feeling is that the demand for new residential construction is just now arising. We have gone through a terrific depression, in which vacancy ratios ran up very high, partly because we entered the depression with a somewhat overbuilt residential situation. It was overbuilt in terms of cost. People could not afford to carry them.

In the next place, under the pressure of the depression, there was a great deal of doubling up. There was a terrific movement from the city back to the country, people moving from urban areas to rural areas. There was a very sharp drop in the marriage rate. The marriage rate is quite a factor in the demand for new residential units. We have gone through 5 years, now, of very low residential building. The residential building went from $3,000,000,000 a year down to less than $300,000,000 last year.

Those factors will count for a great deal of that drop, but they do not account for it entirely. Building, especially residential building, is particularly a local problem. The fact that you have a surplus in one town does not mean that there may not be a shortage in another.

Senator ADAMS. What do your statistics on those 14 cities show as to vacancies in residential property?

Mr. RIEFLER. In general, when you take into account the number of unfit and doubled up, they show very low. There are four here about 10 percent; Casper, 12; Butter, 16; Asheville, 11½; Reno, 12.

Senator ADAMS. Reno, 12?

Mr. RIEFLER. Yes.

Senator ADAMS. That is affected by other things, I suppose.

Senator BARKLEY. There ought not to be any vacant property in Reno.

Mr. RIEFLER. There are two at 8 percent and one at 7. These rest are five or lower, which is a very normal ratio. However, I feel that the demand for new residential construction is just beginning to revive. We have gone through a year of reemployment. A great many people have recovered their jobs and are getting a higher income. They have paid off their most pressing debts and they are getting to the point where they are undoubling, moving out. The movement from city to country is reversing, and just now it is difficult to tell which way the net movement is, but it is probably a net movement back to the city, under the general conditions of reemployment.

Senator WAGNER. You think there are opportunities again for positions?

Mr. RIEFLER. Yes. The marriage rate is going up very rapidly. All those factors indicate that the demand for new residential construction is beginning to revive. I think if we can make proper provision for financing, by next year there ought to be quite a demand.

Senator WAGNER. I know you have been giving this a great deal of thougth and study. That is why I am going to venture this question. Is it your view that we are definitely emerging from the depression?

Mr. RIEFLER. Oh, yes. The consumption goods industries are in very good condition, running at a rate that is fairly well in balance with the market. The automobile industry has emerged from the depression. That is, it has come back into the area of revived economic life. The big dead areas are the rest of the heavy industries, particularly concentrated on those where people find their normal occupation either in providing expanded capital facilities, office, plant, and equipment, and new residences, or in those which are occupied normally with the repair and maintenance of our existing huge capital equipment and physical properties. The next logical point of attack is the development of that demand, which is large. It is the remaining problem of emergence from the depression, and that is why this program is directed right at that area.

Senator BARKLEY. Has it come up at all?

Mr. RIEFLER. That is more movement in the field than there was last year. All the indexes of the heavy industries are advancing. They are still terribly low.

Senator BARKLEY. They are not keeping pace with others.

Mr. RIEFLER. They have more than kept pace with them in percentage advance. The trouble was that they had dropped to almost negligible levels, whereas in the case of the textile, food, clothing, and leather industries the drop from boom times to depression was only in the neighborhood of 20, 25, or 30 percent. In the case of the heavy industries the drop was 50, 60, 70, and 80 percent, and

in the case of residential construction, 90 percent. Aside from construction itself, the heavy industries have been coming back quite rapidly.

Senator BARKLEY. That increased percentage, though, is due to the low base upon which you calculate it.

Mr. RIEFLER. Exactly.

Senator BARKLEY. So that, compared to normal, it is less.

Mr. RIEFLER. Compared to normal, they are very low. They are still way under. They have shown life and movement, and there is recovery there.

Senator ADAMS. Residential construction cannot very well lead the recovery. It is rather compelled to follow it, is it not?

Mr. RIEFLER. We have had a year, now, in which it has not. It is getting to the point where it can follow it, but very definitely you had to have reemployment, undoubling, a reversal of the movement from city to farm, and an increase in family budgets before the residential development could take place.

Senator BARKLEY. Are you able to make any estimate that would be helpful as to the probable number of men who might be brought back into employment if this measure succeeds fairly well, as it is contemplated it will? I realize how difficult it is to tell.

Mr. RIEFLER. No; what I feel about it is this, that we are attacking that field which accounts for our remaining unemployment. We are attacking it at the point where we can most logically expect demand now. We know there is demand, if we can uncover it, in the general rehabilitation and reconstruction, industrial and commercial, as well as residential. Now, if we uncover that demand, it, in itself, will build up enough reemployment to create a demand for new residential construction on a larger scale, and finally have an expansion of our physical plant, so that by attacking the problem at this point and embarking upon a program which looks to the development of each economic demand as it logically arises, the ultimate implications are a complete absorption of all unemployment, but that depends entirely on the extent and speed and success of the effort. How much it would be in 1 month, 2 months, 5 months, or a year, I do not think you can possibly tell. It depends entirely on how successful the effort is, and how rapidly it would be developed.

Senator BARKLEY. Taking the direct and indirect obligation of the Government in this bill into consideration, by comparison with the obligation of the Government in other emergency activities, the chances are that the amount of employment compared to the pull on the Treasury in this bill would be much greater, in proportion, than in any of the others.

Mr. RIEFLER. Oh, yes.

Senator WAGNER. Would it be greater than Public Works?

Senator BARKLEY. Oh, yes. I would think so.

Senator WAGNER. Not per dollar spent.

Mr. RIEFLER. Per dollar spent by the Government.

Senator BARKLEY. That is what I mean.

Senator WAGNER. You mean private investment.

Senator BARKLEY. I am speaking about the obligation assumed by the Government in this bill, compared to expenditures of the Government in other emergency measures. The proportion of reemploy-

ment under it will be infinitely greater, it seems to me, because of the comparatively small amount that the Government undertakes directly.

Mr. RIEFLER. There are three reasons. First, the Government undertakes directly a small amount. Second, the expenditures stimulated are private expenditures—on the rehabilitation, for example, my own estimate would be that $2 of rehabilitation work would be done for cash for every $1 that was insured. This bill provides for a maximum insurance of private loans up to a maximum of $1,000,000,000. If we actually get $1,000,000,000 of that type of credit coming in, I should think the total amount of rehabilitation work done would be at least $3,000,000,000, because I think one home owner out of two deciding to do it would pay for it out of cash. He would see the opportunities were favorable and pay for it himself, and I should think the commercial and industrial rehabilitation would easily add another dollar to it.

Senator BARKLEY. The example might have a good effect on some neighbors who had not rehabilitated, but who could do so without taking advantage of this law. They would be keeping up with the Joneses.

Mr. RIEFLER. The third point on which you would get the maximum results for your expenditure is the fact that the whole program is contemplated to be a developing program. The fact that you get your rehabilitation and repairs, and that type of employment this year will carry on the reemployment of last year, and will set the stage for new residential construction, which, in itself, will set the stage for more maintenance and new equipment on the railroads, and general business. It is a developing and regenerating program.

Senator WAGNER. Some of the other activties of the Government really built the foundation, so that we can now embark upon this new venture.

Mr. RIEFLER. Yes, sir.

Senator WAGNER. In view of the fact that we were overexpanded, undoubtedly, in our production capacity, would there be so much demand in the durable-industry field for new construction, or would the larger percentage be for replacement?

Mr. RIEFLER. We were overexpanded 5 years ago. I doubt today whether we are anywhere near overexpanded. The rate of obsolescence and depreciation is enormous. The rate of technical advance is enormous.

Senator WAGNER. Although it may be new construction, it really would be replacement to a large extent.

Mr. RIEFLER. Exactly.

Senator WAGNER. That is what I mean.

Mr. RIEFLER. I think if our industries tried to operate today at the capacity at which they operated in 1928 and 1929, they would find they would have to go into enormous spending programs for new equipment and plant.

Senator BARKLEY. To what types of property, in a word, does this $2,000 limitation apply?

Mr. RIEFLER. The $2,000 limitation is for the rehabilitation loans. There is no limitation on the property. At first we had that limited

to owner-occupant properties, but we felt in the end that the $2,000 was a limitation to meritorious projects in general.

Senator BARKLEY. It applies to small business property as well?

Mr. RIEFLER. Yes. A retail store could put in a new plate-glass window and refurbish its appearance. Anything which could be done for $2,000 would be eligible for this.

Senator BARKLEY. They could build a small addition, or extend the space by addition, or lengthening, or a second story, or anything of that sort, coming within $2,000.

Mr. RIEFLER. Yes.

Mr. WALKER. Or any new equipment.

Senator BARKLEY. New equipment; yes.

Mr. RIEFLER. The second feature of this mortgage program is sound if the insurance is sound. In order to make these facilities widely effective, we propose to permit the Federal incorporation, charter, examination, and supervision of National Mortgage Associations, which will be able to raise funds in the market, where funds are cheapest, selling their securities in the New York Security Market, where funds are cheapest, provided those funds are loaned on insured mortgages.

The control comes through the insured mortgage. They will not be able to raise funds for other types of mortgage lending, or go into other types of activities, but to the extent that they can collateral their bonds or debentures with insured mortgages approved under this plan, they can raise funds in the market. Those associations will have to have at least $5,000,000 capital. We want them to be large, so that they will be subject to accurate supervision, and so that there will not be too many of them, and so that they can be under careful scrutiny, and their record followed very carefully by the financial press.

The CHAIRMAN. Would that include manufacturing plants?

Mr. RIEFLER. No. Any funds they raised in the market under their bonds or debentures must be covered by insured mortgages, and the insured mortgages are:

1. Owner-occupancy houses of the type which I have described; and

2. The slum-clearance, limited-dividend, low-cost-housing projects.

They will be able to finance those two types of projects.

The CHAIRMAN. Not business properties?

Mr. RIEFLER. Not business properties.

Senator WAGNER. Do you provide in the bill for loans to be made to limited dividend corporations?

Mr. RIEFLER. Private companies will make the loans to limited-dividend corporations, but loans made to limited-dividend corporations will be eligible for insurance.

Senator WAGNER. I am speaking about insurance. Is that specifically provided?

Mr. RIEFLER. Yes. The purpose of these associations would be to unlock the jams that are normal in the mortgage market. Mortgage loans in general are made by local institutions, and the rates reflect enormously whether there is a plethora or a deficiency in local mortgage funds. In the East, where communities are not growing as rapidly as they are in the South and West, you have very large

savings per capita, and excess, usually, of funds available for saving, for investment in mortgages, frequently in excess of the sound local use for mortgage money. One of the reasons why we have this overlending and building up of values on properties, when you find large loans out on slum properties, for example, is because these local institutions like to lend their money near home. In the South and west, on the other hand, you find high mortgage rates, because those are the communities that are growing very rapidly, as a general thing. There is a large proportionate demand for mortgage money, and the local supply of savings is not sufficient to take care of it.

The purpose of the mortgage association will be to furnish an instrument by which funds from places where mortgage money is superabundant can be put in to supplement local capital in regions where the rates are high and there is a deficiency of local capital. We realize that that has got to be safeguarded so that you do not have unsound competition with the local mortgage lenders, so we are providing that these mortgage associations, which in every case will be under the control of the board, must be able to assure the board of their ability to properly service the loan.

The CHAIRMAN. Is not the requirement with regard to capital of $5,000,000 pretty high? Five million dollars is rather difficult to raise in various communities.

Mr. RIEFLER. It may be too high.

Senator BARKLEY. Is there any way, in advance, to draw any straight line so as to determine whether one of these associations is needed in a given community, or whether it would overlap any existing agency there? Or would you have to be governed by the conditions in each territory?

Mr. RIEFLER. We would have to be governed by the conditions in each territory. It is limited to insured mortgages, and therefore could only bring funds into a community on mortgages that conform to these sound standards. It would therefore be under the complete supervision of the Home Loan Bank Board, which would have to be satisfied that it was needed in that community.

Senator BARKLEY. There has been some little fear expressed that it might bring about Government competition in communities where they have going concerns.

Mr. RIEFLER. These are private concerns, but they would be completely under supervision at every point.

The CHAIRMAN. Is there anything else of Mr. Riefler? If not, I think we had better recess now until tomorrow morning. We have another meeting this afternoon. We will hear Mr. Russell and others tomorrow morning at 10 o'clock.

Mr. WALKER. What is the wish of the committee, Mr. Chairman, with reference to having further witnesses appear before you? Do you desire to have any further information? We thought that tomorrow, on the fourth feature, that is, the question of building-loan insurance, we would have Mr. Russell, who is counsel for the Home Owners' Loan Corporation, and their statistician. I was wondering if the committee desired any further persons to appear before it at this stage.

Senator WAGNER. I do not know whether this is a wise suggestion or not, but in view of the fact that there will be some controversy as to whether the banks will make these loans, whether this is an inducement for them, perhaps it would be wise to have one or two witnesses representing bankers.

Mr. HURLEY. Mr. Chairman, my name is Charles F. Hurley. I am treasurer and receiver general of the Commonwealth of Massachusetts. I have made a trip down here to have the opportunity to appear before your committee. In view of the fact that time is of the essence with those who visit Washington, I was wondering if I could be heard if I remained until tomorrow morning, after Mr. Russell and the other speakers. In other words, I would like to know just when I could appear before this committee.

The CHAIRMAN. What phase of it do you represent?

Mr. HURLEY. I do not represent anybody, but as an individual, and as treasurer and receiver general of the Commonwealth of Massachusetts, I am one of the first public officials who, 4 years ago, took a definite stand on the revision of the mortgage laws for the home owners. I have some definite ideas with regard to certain phases of the bill, not as an expert, but as an individual citizen.

The CHAIRMAN. I think we can hear you tomorrow morning. How long would it take?

Mr. HURLEY. Five minutes.

The CHAIRMAN. We will hear you tomorrow morning, as well as any others you may wish to present, Mr. Walker. Do you wish to have Mr. Fahey or Mr. Hopkins appear?

Mr. WALKER. Mr. Russel will represent Mr. Fahey, Senator. I will ask Mr. Hopkins if he has anything further to present.

The CHAIRMAN. We will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 1 p.m., Wednesday, May 16, 1934, an adjournment was taken until tomorrow, Thursday, May 17, 1934, at 10 a.m.)

NATIONAL HOUSING ACT

THURSDAY, MAY 17, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on yesterday, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Wagner, Barkley, Bulkley, Costigan, Bankhead, Adams, Goldsborough, Townsend, Couzens, Steiwer, and Kean.

The CHAIRMAN. The committee will come to order, please. Mr. Russell, are you ready?

Mr. RUSSELL. Yes, Mr. Chairman.

The CHAIRMAN. Please come forward to the committee table and take a seat there. State your name, address, and occupation.

STATEMENT OF HORACE RUSSELL, GENERAL COUNSEL OF THE FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C.

Mr. RUSSELL. My name is Horace Russell. I live in Atlanta, Ga., and practice law there. I have been employed by the Federal Home Loan Bank Board for many months as general counsel. In my private law practice I have handled the real-estate and mortgage-loan business of my firm, representing insurance companies, building-and-loan associations, and individual lenders for a good many years, and gained a good part of my knowledge of the mortgage business in that connection. And I have made special studies of the business since I have been in Washington.

The CHAIRMAN. You are familiar with this bill, S. 3603, I suppose, and we will be glad to hear from you about the objects and purposes to be gained, and the reasons for the bill and any supporting facts.

Mr. RUSSELL. Yes, Mr. Chairman; the Federal Home Loan Bank Board has been at work on this question for some time, as you no doubt know, and I have worked on it with the gentlemen who testified here yesterday, and others.

I have before me a memorandum in re reasons and necessity for home-mortgage legislation.

The real-estate mortgage debt of the United States is about 43 billion dollars, divided into about 8 billion dollars of farm mortgages, about 21 billion dollars of home mortgages, and about 14 billion dollars of other mortgages.

The size and importance of this problem and the necessity of dealing with it is realized when we consider that the total of all commercial loans in all banks are estimated to be less than 8 billion dollars, and this includes brokerage loans against stock-market collateral. Furthermore, mortgage credits are necessarily long-term credits and are more difficult to adjust.

Senator COSTIGAN. Mr. Russell, have you tabulated the mortgages other than farm and home?

Mr. RUSSELL. There is a tabulation from which this is taken, in the book by Mr. Clark, published about a year ago, Mr. Elwood Clark, under the auspices of the twentieth-century fund. That was a study of the internal duties of the United States; and these figures are taken from that book as well as from some other sources.

The CHAIRMAN. Very well. You may proceed with your statement.

Mr. RUSSELL. Furthermore, the 21 billions on homes come very close to the hearthstones of the people and affect very vitally the welfare of the Nation.

The Home Owners' Loan Corporation now has about 1,250,000 applications for more than 4 billion dollars of loans, and as other loans mature in a market where there is no money its volume will increase greatly unless something is done. A large volume of home mortgages was made in the form of 1-year, 3-year, or 5-year straight mortgages and are now past due or are rapidly maturing.

Before the Home Owners' Loan Act of 1933 was enacted, it is estimated that 10 percent of all urban homes which had been mortgaged had been foreclosed and foreclosures were going forward at the rate of nearly 25,000 per month, or over three times the rate under normal conditions. There has been some decline, but the rate continues at over 20,000 a month, or over three times normal. Unless normal mortgage lending can be started again or the Government takes over the whole business we will have (1) continued foreclosures upon homes, (2) disruption of all business as a result of depressed real-estate values, and (3) almost complete unemployment of nearly 2 million men who work on homes.

The effort in the proposed legislation is to accomplish the following purposes, for the reasons stated. I won't read the first two references in this memorandum on this legislation, because that has been covered by the gentlemen who testified before you on yesterday; but taking up the third title——

Senator BARKLEY (interposing). Suppose we just have the benefit of it anyhow.

Mr. RUSSELL. Very well. I say here, the effort in the proposed legislation is to accomplish the following purposes, for the reasons stated:

(1) By insuring through Home Credit Insurance Corporation against losses up to 20 percent of the amount advanced by institutions, to induce these institutions to make loans not exceeding $2,000 each on open or secured notes, repayable in installments, for maintenance, repair, and improvement of homes or other properties, with the hope that about $1,000,000,000 will be so advanced in the next few months, thereby employing a large part of this housing labor quickly and taking them off the relief rolls. By this means the

Government would give these men constructive work, would improve housing conditions, and could not possibly lose more than 20 percent of the money spent in getting them to work.

(2) In order to induce banks, trust companies, and other mortgage lenders to loan money, provision is made to insure through the Home Credit Insurance Corporation specific mortgages up to $1,000,000,000 which do not exceed 60 percent of the property value against existing homes, and an unlimited amount of mortgages up to 80 percent of property value against new homes built after the act takes effect. This insurance is to be written to July 1, 1937. These loans will be made at not exceeding 6 percent, and, in addition, the borrower would be required to pay for the cost of this insurance on a mutual basis and, in addition, would be required to pay amortization payments. This plan is expected to get large volumes of money out of the banks, trust companies, trust estates, and other places where money is now stored. This plan is expected to get money from parts of the country where it is and out of institutions where it is, by offering the assurance of a specifically insured mortgage investment. It authorizes the Home Credit Insurance Corporation to issue debentures which are fully and unconditionally guaranteed as to principal and interest by the United States to make settlement on its insurance contracts.

(3) Provision is made for the Federal incorporation of national mortgage associations with a minimum capital of $5,000,000 paid-in cash and represented by stock of different classes, and authorized to issue debentures up to 15 times the stock issue to secure funds for first-mortgage real-estate loans, or to buy such loans. These associations would be under the regulation of the Federal Home Loan Bank Board, and are expected to raise large funds from the sale of stock and sale of debentures in the market. This plan also contemplates that these associations will get money from where it is in the financial centers and lend it where it is needed in other sections of the country.

(4) Provision is made for the insurance of savings in building-and-loan associations and similar institutions, so that while the saver would not be insured that he could get his savings on demand, yet he would be insured that he would get his money through the orderly processes of the institution, or, in the event of liquidation, from the insurance corporation on a reasonable basis. This proposal is so constructed that the associations would pay the cost of this insurance very much as bank-deposit insurance cost is carried by the banks. It also provides for a large reserve in the insurance corporation and for the building of larger reserves in the association. This proposal is expected to add confidence to the institutions insured under it, so that the flow of savings into them would rapidly increase and they would thereby be enabled to make loans on existing homes and on new homes. There are about 10,000 such associations, having about $8,000,000,000 of assets, owned by about 10,000,000 people. It is estimated that 5,000 of these institutions could qualify for this insurance and that these hold probably $5,000,000,000 of home mortgages and have probably seven or eight million savers. Normally all these institutions together lend about $2,000,000,000 a year and about $1,000,000,000 of this goes into refinancing mortgages

and about $1,000,000,000 into mortgages on new homes and for improvements. This type of institution has been drained of money by Postal Savings and insured bank deposits, and unless they are put into position to get a large volume of new money the mortgage market will continue to suffer. These institutions are said to furnish the money for 65 percent in number of all small homes. Their borrowers are largely working people and their savers are largely working men and women.

(5) Provision is made to liberalize the Federal Home Loan Bank Act by authorizing these banks to lend upon less collateral and, by providing a better method of issuing securities, to get new money. These banks now have nearly $100,000,000 loaned out and are rendering a very large service to about 2,400 member institutions, which hold about 3 billion dollars of mortgages. They can render a greater service with the proposed more liberal loans on their collateral and the proposed better method of securing new funds by the issuance of debentures. It is proposed to amend the Farm Credit Act of 1933 to let production credit associations make loans for repairs and get the same insured as other institutions may so as to help provide money for the improvement of farm homes.

It is proposed to let national banks loan money without the usual restrictions on real estate, provided they take insured mortgages, and also to let national banks make temporary loans for financing new building, not more than 6 months and not more than 50 percent of their capital and surplus, and to make these loans discountable at the Federal Reserve bank as commercial paper, provided permanent financing has been arranged.

Now, taking up title III, which is the insurance of savings and loan savings, which I was especially requested to call the committee's attention to.

About 10,000,000 people, principally workingmen, save their money for home purchase, for the education of their children, and for any other purposes for which small savings are used, in small amounts by the week or month in savings and loan associations, building and loan associations, homestead associations and cooperative banks. These institutions now have about 8 billion dollars of savings in them, substantially all of which is loaned on long-term home mortgages. This plan for the insurance of these savings seems necessary not only to protect these small savers, somewhat as bank customers have been protected, but it also seems essential to keep these institutions functioning in a normal way to promote the recovery program. It is estimated that 65 percent of the small homes of the country are financed by these funds, and a steady flow of such funds is necessary to employ the labor which is accustomed to be employed on small homes. These institutions normally lend about 2 billion dollars a year, about half of which goes into the financing of existing mortgages (and this refinancing is very essential to relieve the Home Owners' Loan Corporation), and about half of which goes into loans for new homes (and these loans are very essential to the employment of labor).

This plan provides for the Home Owners' Loan Corporation to subscribe $100,000,000 of capital to Federal Savings and Loan Insurance Corporation and pay for the same with bonds. The stock will

get a dividend rate the same as the coupon rate on the bonds, and this capital is intended to serve merely as a guarantee to insure confidence. The Insurance Corporation will charge the insured institutions a flat insurance premium of one half of 1 per centum per annum of all insured accounts, plus other creditor obligations, until a 5-percent reserve is built up in the Insurance Corporation.

If all such institutions are brought in, this will build up about a $40,000,000 reserve. In addition, the Insurance Corporation is authorized to assess an extra insurance premium to cover losses, not exceeding one quarter of 1 percent per annum, of all insured accounts, plus other creditor obligations. To further provide for solvency, provisions is made to require insured institutions to build up their own reserves to at least 5 percent within 10 years.

Senator BULKLEY. How do you arrive at the figure of 5 percent for the Insurance Corporation?

Mr. RUSSELL. Well, the highest figure that has been known in this type of mutual local savings institution in the country is 5 percent.

Senator BULKLEY. The highest what?

Mr. RUSSELL. The highest reserves that have been required by law in any of the States, I believe, is 5 percent.

Senator BULKLEY. How would that reserve operate if it had been in effect as here stated during the financial difficulties we have been going through? In other words, would that have been sufficient?

Mr. RUSSELL. You will note that this bill provides for a 5-percent reserve in the Insurance Corporation as a common fund, and in addition a 5-percent reserve in the individual institution for its own protection, which accumulates a total reserve of 10 percent. I think undoubtedly in the present situation a 10-percent reserve would have been fully adequate. In fact, we came into the present depression with these 10,000 or so associations carrying an average of only about 2- or 2½-percent reserves. And with that average, outside of some of the second-mortgage companies, and very few defalcations, there is not a very great number of such institutions that are actually in receivership now.

Senator BULKLEY. Haven't a good many of them suspended payments to depositors?

Mr. RUSSELL. Oh, a great many have failed to pay on demand; yes; so far as that point is concerned. But as to this type of institution——

Senator BULKLEY (interposing). But that is technically insolvency, when they cannot pay on demand, isn't it?

Mr. RUSSELL. No, sir. This type of institution is most deliberately set up to avoid that very situation which confronts a bank. Of course, they sell and distribute stock, and the owner of that stock can sell it to anybody he wants to, but they make provision that the association may buy stock back from a portion of its receipts. But this type of institution does not bind itself to pay back money on demand to savers at all, or at least except in very unusual circumstances.

The CHAIRMAN. Do you know how many of these associations have failed to pay on demand?

Mr. RUSSELL. No, sir; I do not know how many. But it is a great number.

The CHAIRMAN. Could you suggest a percentage who have so failed?

Mr. RUSSELL. It is probable that at least half of the volume of this money is in associations that at one time or another during depressions have failed to pay on demand. But it is rare that they have failed to pay their people their money within a period of as much as a year, although that has happened in some places.

The CHAIRMAN. Have you any idea of the amount due and required now by stockholders and members of associations that have not been able to meet the amounts involved in that way?

Mr. RUSSELL. No, sir; I do not think there are any figures available as to the amount of the withdrawal demand at this time. It is safe to say that it is pretty substantial, however. These institutions handle their withdrawals as demanded in this way, if I may explain it briefly: They have provision in their bylaws almost universally that they may pay small sums, usually $100 or less, per month to their people in case of necessity, in any order. They are usually compelled by their bylaws to set aside half of their total receipts and apply that to the retirement demands of people who wish to withdraw, in the order in which they file their requests. Under these two provisions these institutions generally speaking have been able to give people the money they actually needed. There are exceptions to that proposition, however. They have very uniformly declined to just liquidate the amounts of accounts in full. If a man has saved, let us say $5,000, and he wants all of his money on demand, and that money is loaned out on a 12-year loan, they do not give him his money back on demand. But they have, generally speaking, been able to give their savers some money from month to month from their accumulated savings. And it is rather rare that any savers in these institutions have been held up for more than a year in getting substantially all of their savings.

The CHAIRMAN. Very well. You may proceed with your statement.

Mr. RUSSELL. Institutions eligible to insure their accounts under this plan are savings and loan, building and loan and homestead associations, and cooperative banks which are members of the Federal Home Loan Bank System.

Provision is made for the maturity of the insurance contract only in the event the insured institution is placed in receivership for liquidation or is taken over by any public authority for liquidation. The result is that the saver can be sure that if he saves $5 a week, or any other sum, he can get his money back in due course through the regular processes of the institution, or if the institution fails the Insurance Corporation will pay him. The maximum account insured is $2,500. The insurance does not provide liquidity for these long-term mortgage-lending institutions. In the event of liquidation the Insurance Corporation pays 10 percent in cash and 50 percent of the remainder in 1 year, without interest, and the balance in 3 years, without interest. In the event of liquidation, the saver may take another insured account in another insured institution, or, at his option, settlement on the above-stated basis.

Substantial power is given in the bill to the trustees of the Insurance Corporation, who are members of the Federal Home Loan Bank

Board, to make regulations controlling insured institutions in reference to their loans, their securities issued, their sales plans, practices and advertising, their payments of dividends and requirements for building reserves.

It is expected that this plan will secure a more adequate flow of funds into these institutions to provide for home financing and that these funds will be secured at lower rates and that long-time, monthly amortized home mortgages will be made available at reasonable rates. Unless these results are accomplished the pressure for an indefinite extension of Home Owners' Loan Corporation to absorb the whole home-mortgage field of $20,000,000,000 will be almost irresistible.

I have some comment here on title IV, which are amendments which apply especially to our situation.

Title IV of the proposed bill provides for the amendment of the Federal Home Loan Bank Act in two respects: First, it makes the collateral requirements less rigorous, and, second, it authorizes the issuance of consolidated Federal home-loan bank debentures.

Under this amendment Federal home-loan banks can in no case loan more than 65 percent of the unpaid principal on amortized mortgages, or more than 60 percent of the value of the home in such cases, or more than 50 percent of the unpaid principal or more than 40 percent of the home value in the case of short-term mortgages. This is conservative, but will permit these banks to operate much more extensively than at present.

I might point out that the present provision is that these banks cannot loan more than 60 percent of the face of any mortgage, although it may be an original mortgage of $10,000 and paid down to $2,000. They still cannot loan on the $2,000 more than $1,200, even though the house may be priced at $20,000. They cannot loan at the present time on a long-term amortized mortgage more than 40 percent of the property value in any case. That is, a $8,000 mortgage on a $10,000 house means that the maximum is $4,000 that can be loaned.

Senator WAGNER. What law are you speaking of now?

Mr. RUSSELL. The Federal Home Loan Bank Act. Title IV of this bill amends that act in two respects.

Senator WAGNER. I am not clear on that proposition. Let us suppose there is a State statute which limits the amounts of loans which may be made upon real estate to a certain percentage of the value of the property and that that statute of the State is in conflict with this bill here. Then what happens?

Mr. RUSSELL. I do not think that would conflict with this situation at all, because this provision here is simply a limitation providing that the Federal home-loan banks cannot loan more than this specified amount on mortgage collateral. The result of it is, that with the situation as it now exists, these banks having more than four to one of real estate underlying their loans and approximately two to one of mortgages underlying their loans—and that is so much more collateral than anybody else has ever required—it restricts the lending of the banks pretty substantially. Then this provision here just simply slightly lifts the collateral requirement and puts it on a slightly less conservative basis. The provision here would probably result in these institutions having mortgage collateral that

would be supported by about three times as much real estate as the amount of the bank's loan.

This amendment would authorize the issuance of consolidated Federal home-loan bank debentures to avoid the expense involved in the issuance of secured bonds and to get money at cheaper rates in these banks. The banks would still be able to issue secured bonds, if necessary, at any time no such debentures are outstanding.

Under the present act as it stands banks are authorized to issue bonds or debentures. But under the act either the bond or the debenture is secured, and therefore they are the same thing under the present act. The method of security is for these banks to put up $190 of mortgage collateral for $100 of bonds outstanding, and that must be put up with the registrar at each bank.

Now, the Board has given a great deal of attention to that question. No bonds have been issued, but the Federal home-loan bank, of Cincinnati, got up to the point of issuance of bonds, and we had a great deal of work to do on this question, and it developed that it would be substantially expensive to set up this registrar in each of the 12 banks and handle mortgage money in this manner, so this amendment would permit the Board to issue the debenture of the consolidated banks, somewhat similar to debentures issued by the intermediate credit banks which have sold at a very attractive rate.

The CHAIRMAN. Have you twelve of these home loan banks set up and in operation?

Mr. RUSSELL. Yes, sir.

The CHAIRMAN. In each of the Federal Reserve districts?

Mr. RUSSELL. They do not follow the Federal Reserve districts, but there are twelve of these home-loan banks in operation. The districts are substantially different. The statute prohibits the splitting of a State, so that the districts are not the same. These banks, however, have now over 2,400-member institutions, which hold over 3 billion dollars of mortgages, and they have, I believe, more money loaned out today than the Federal Reserve System has in all of its commercial loans. That is not much, it is true, not enough by a whole lot. But they have loaned something over 100 million dollars and have outstanding now about 87 million dollars in credit. And they have been a very substantial factor in stabilizing this type of financing during the year and a half they have been in operation.

Now, this effort is to enable these member institutions to borrow and use more money for the financing of homes in local communities, and, in turn, to enable this Board to procure the funds for the ultimate operation of that system at lower rates by the issuance of consolidated Federal home-loan bank debentures instead of an individual bank bond issue through the registrar system.

The CHAIRMAN. Have these banks all issued debentures?

Mr. RUSSELL. None has issued any debentures at all. The Federal home-loan bank, of Cincinnati, loaned all of its capital, and it began to borrow some money from other Federal home-loan banks. It has loaned in its territory, which is Ohio, Kentucky, and Tennessee, a total of something like 20 million dollars. And it borrowed several million dollars from other Federal home-loan banks, and got to the point where it had to have some more money, and then this matter of a bond issue was considered. However, no bonds have

been actually issued by any of these banks. The banks do not owe any money at all.

The CHAIRMAN. And the matter is still under consideration?

Mr. RUSSELL. Yes, sir. If these banks carry out their full purpose they will eventually have to issue some kind of security, because it is contemplated that they will extend the mortgage market substantially; and they would get that money in the private money market.

The CHAIRMAN. And there has been some investigation made to see whether debentures could be sold?

Mr. RUSSELL. Yes; the board has made some study of that question. However, I am not able to give you any authoritative information on what the situation is in that respect. I do know that the board has made a long-term study of the whole question and is of opinion that consolidated debentures, that is, a single debenture issue instead of twelve bank debenture issues, would be more salable; that supported by the capital of all the banks and the reserves of all the banks, it would be a more flexible and marketable security, and that type of security would be very much cheaper to operate.

The CHAIRMAN. Why hasn't this facility that you now have under the law been sufficient to carry out your purposes here? You could enlarge and expand that without creating some new organization, couldn't you?

Mr. RUSSELL. Well, Mr. Chairman, there are several reasons that I might give. One of them is that so much of the mortgage collateral now held by member institutions is ineligible collateral under the act. Under the Federal Home Loan Bank Act these banks cannot take collateral if it is substantially past due. They cannot take it unless the taxes on the property are paid up. It has to be prime mortgage collateral for these banks to take it. Member institutions today have 9.9 percent of their assets in real estate. They have 22 percent of their assets in mortgages more than 6 months past due, and some 3 or 4 years past due.

The CHAIRMAN. When you say "member institutions" do you mean building and loan associations?

Mr. RUSSELL. Yes; and savings banks. I mean member institutions that loan money to the people, are carrying their people to the extent that a large volume of their mortgage collateral is too far in default to be acceptable collateral to the banks. That is one reason.

Another reason is that in these times financial institutions, and especially financial institutions having a drain upon their cash reserves daily, are disinclined to lend money. These institutions are finding a constant flow of money into Postal Savings and banks with insured deposits, and that flow continues to take money right out of this 8 billion dollars of money, and as long as it continues they are not going to lend any great amount of money.

Take a 10-million-dollar building and loan association that has paid out by way of withdrawals, and is paying out from day to day the major portion of its cash receipts to its savers, and finds these checks coming back every morning indicating that they went into Postal Savings or into insured bank deposits, and it is liquidated down to 8 percent now, that association is not going much further in the mortgage business as long as that condition continues.

That is the reason we have decided to try this provision here, in order to meet the drain that is coming from Postal Savings and from insured bank deposits, both of which sources are draining money out of the mortgage market, leaving no money available for home mortgages at all. That is what makes for the present condition of men out of work. There isn't any mortgage money available, and therefore there isn't any work available for those who work on houses. And so it is that we have provided title III, to accomplish that.

Now, getting back to the direct question asked me as to why these banks cannot fully serve in this emergency—and as I say, they are serving in a very large way, to have loaned 100 million dollars in 18 months, and you will recall that the Federal Reserve System did not make its first loan until 11 months after it was organized. This system has functioned very substantially.

Now, I have stated two reasons. One is, that their mortgage collateral, because they have forborne and not foreclosed, is not in prime condition and is not acceptable as collateral. The other reason is that the institutions having drawn upon their cash income, cash resources, are unwilling to proceed to lend as long as that drain continues. They are unwilling to put up at the rate of two for one their collateral and borrow money to lend to the public when they do not have to.

Now, I should point out at this stage that these institutions have substantially all of their resources in loans on foreclosed real estate. I think it is safe to say that they have at least 95 percent of their total resources in loans on foreclosed real estate. They are not pursuing the course that the banks are pursuing of storing money up. Frequently you will find them with less than 1 percent of cash on hand. As soon as they get a couple of thousand dollars they do make a loan.

But the reason why this bank system cannot fully serve in this emergency is that the type of member institutions that that bank system has, which carries about one third in dollar volume and nearly two thirds in number of home mortgages—those institutions are being called upon to take up mortgages that the banks have heretofore made on a short-term basis, mortgages that the mortgage companies made on a short-term basis, mortgages that individuals in many cases made on a short-term basis, so that they cannot even carry their own share of the load with the cash drain on them they now have, much less take up mortgages that are being carried by other people who lend straight loan money.

Senator COUZENS. What interest do the building and loan associations pay on these withdrawals?

Mr. RUSSELL. They pay dividends in whatever amounts are declared on all the money that is there. These are mutual institutions as a rule; in fact, I suppose that 95 percent of the money is in mutual institutions.

Senator KEAN. They have preferred stock, and that is 6-percent stock, isn't it?

Mr. RUSSELL. There is occasionally one that has preferred stock. But I would say that 95 percent of the 8 billions of dollars in these institutions is in the mutual type of association.

Senator COUZENS. What does experience show that the people have gotten on those deposits?

Mr. RUSSELL. I would say that in the year 1933 the average return on building and loan savings was just above 4 percent. Now, in 1929 the average return was above 5 percent, and it has declined.

Senator KEAN. What about in 1925?

Mr. RUSSELL. In 1925 the average return throughout the United States was just under 6 percent. In the larger areas, like the District of Columbia, where there are 90 million dollars in building and loan associations, they pay 5 percent flat. They are purely mutuals here.

Senator COUZENS. Are they withdrawing their money now and putting it into Postal Savings and savings banks at a very much reduced return?

Mr. RUSSELL. Yes, sir. There is a drain upon the type of institution that is not insured toward the place that is insured. And it is very substantial.

Senator COUZENS. You want to insure them up to $2,500, as I understand it.

Mr. RUSSELL. Insure the account up to $2,500.

Senator COUZENS. And let them get large returns at the same time?

Mr. RUSSELL. This provides for a regulation that in my opinion will restrict the return very substantially, at least for many years to come.

Senator BULKLEY. Just what is that regulation?

Mr. RUSSELL. First it is that they have to build up a 5-percent reserve in this Insurance Corporation, which is twice as big by itself as all the reserves these institutions have built up in the past.

Senator BULKLEY. How much do they have to build up each year?

Mr. RUSSELL. One half of 1 percent, in addition to being subject to one fourth of 1 percent assessment for losses.

Senator KEAN. What do they invest that in?

Mr. RUSSELL. The Insurance Corporation would put that money in the United States Treasury, and in turn would invest it in obligations of the United States and Federal home-loan bank bonds or Farm Loan Corporation bonds, or deposit it in Federal Reserve banks subject to the approval of the Secretary of the Treasury. And—well, I believe that is all on that.

Senator BULKLEY. That is one half of 1 percent of what?

Mr. RUSSELL. The premium that is payable every year is a sum equal to one half of 1 percent of the total amount of the accounts of the insured members, plus their other creditor obligations.

Senator BULKLEY. One half of 1 percent of their obligations?

Mr. RUSSELL. One half of 1 percent of the amount of money saved in their insured members' accounts, plus their creditor obligations. If I may illustrate that just a little further: Say here is an Ohio building and loan association that has 10 million
building and loan association that has $10,000,000 in it, and it insures under this act, the insurance would be roughly one half of 1 percent of $10,000,000. That is an annual premium, recurring every year until it is built up to the 5-percent sum in this insurance corporation.

Senator BULKLEY. Five percent of what?

Mr. RUSSELL. Of these insured accounts, plus the creditor obligations.

Senator COUZENS. Is there any objection to writing into the statute a limitation on the return on what these depositors put into this institution?

Mr. RUSSELL. I think there would be, due to the fact that the mutual institutions have nobody else to give the money to. When you put a limitation upon what banks can pay for deposits the result might be that the stockholders in the bank would get 40 percent, and you have somebody else to give any excess to. But in the case of these mutual institutions, if you put a limitation upon what the depositor will get there is nobody else to give the money to.

Senator BULKLEY. Your point is that they do not agree as to what amount of money the depositor gets at all. He only gets what is left.

Mr. RUSSELL. Yes, sir. And in the case of many of them they are getting nothing now, and in the case of some they are getting 2 percent—whatever is earned.

Senator BULKLEY. In any event, there isn't an obligation to pay them.

Mr. RUSSELL. No. There is no obligation to pay anything. It is only an obligation to pay whatever is earned.

Senator KEAN. If you limit the amount they can receive until this 5 percent is made up, why, the 5 percent might be made up a great deal sooner than if you did not do that.

Mr. RUSSELL. It puts down the arbitrary requirement that 5 percent be built up at the rate of one half of 1 percent per annum.

Senator KEAN. Suppose they fail to earn so much this year, then they do not pay one half of 1 percent; is that it?

Mr. RUSSELL. Yes, sir.

Senator KEAN. How do they pay that?

Mr. RUSSELL. It is a flat assessment upon them.

Senator KEAN. How would they pay it?

Mr. RUSSELL. From their capital or surplus or reserve. It would be considered an obligation upon them to pay it if they joined.

Senator Bulkley. Is that one half of 1 percent specifically allocated to build up a reserve, or is it used to pay losses, if any occur?

Mr. RUSSELL. It is available to pay losses if they are required to pay any losses. The provision is that they shall pay this one half of 1 percent every year until this reserve is built up to 5 percent; and they must start paying again if it gets below 5 percent. In addition to that the corporation is authorized to assess one fourth of 1 percent per annum, and to continue that assessment to cover all losses up to the time of such assessment.

Senator BULKLEY. It might happen that there were a great many losses, and one half of 1 percent wouldn't find its way into the reserve account.

Mr. RUSSELL. Well, it might find its way in and then come right back out. If the losses were three quarters of 1 percent a year then the reserve would not grow. But the bill provides for a top assessment of three fourths of 1 percent.

Senator BULKLEY. And that other quarter percent is discretionary?

Mr. RUSSELL. That other quarter percent is not to be assessed except to cover losses. It is to be assessed if there are losses, and it is to be continued until those losses are all covered.

Senator BULKLEY. If there were losses of one quarter of 1 percent would the assessment then be compulsory?

Mr. RUSSELL. Yes, sir; and not only essential for that year but the one fourth of 1 percent would have to be continued until those assessments had reimbursed the reserve account, where the losses had been taken from; that is, until the one fourth of 1 percent assessments do cover the total losses.

Senator BULKLEY. Then the one half of 1 percent going into the reserve is covered by a cushion of one fourth of 1 percent?

Mr. RUSSELL. Yes, sir; that is not only an assessment for current use, but by the provision they shall continue to assess one fourth of 1 percent until the assessments are equivalent to all losses. For instance, if you had a big loss the second year you would have to continue the one fourth of 1 percent until you had acquired enough money from that source to cover all losses. So that one fourth of 1 percent in effect then would go into the reserve.

Senator KEAN. You complain that banks won't loan on securities at the present time. The banks are subject to the national bank examiner, and if a national bank examiner throws out all these loans, why naturally the bank won't make such loans.

Mr. RUSSELL. I think that is true. And we fully appreciate the position the banks are in, I think, in that respect. And there is a provision here that I should state before I conclude; I mean a provision in that connection, to amend the Federal Reserve Act, in title IV. so as to permit banks to lend upon these insured mortgages; that is, mortgages insured under title I of this act, in an unlimited way. That is, it would take off the 5-year term that is in the Federal Reserve Act, and take off the percentage value in the Federal Reserve Act, in the hope that we will induce banks to lend some money on long-time amortized mortgages.

Senator KEAN. That depends largely upon whether a bank examiner will approve such loans or not, I take it.

Mr. RUSSELL. I think it depends upon that, and also upon the personality of the individual banker.

Senator KEAN. And if the national bank examiner disapproves such a loan, the next time one is presented the officer of the bank will not take it.

Mr. RUSSELL. Yes, sir. And again this is proposing to amend the Federal Reserve Act to provide for the construction of urban homes or farm buldings, with the provision that such loans, whether secured by the real estate or not, shall not be treated as real-estate loans, but as commercial loans. And if the bank has an arrangement for somebody to fund that loan into a permanent loan upon completion of construction, a responsible party, then such a loan is made eligible as commercial paper in the Federal Reserve System. So that it is hoped these two things will encourage the banks of the country to use more of their reserves for mortgage lending.

The CHAIRMAN. Has that been referred to the Federal Reserve Board in any way? In other words, do you know whether they would approve of that provision?

Mr. RUSSELL. I do not know whether it has been referred to them or not. Mr. Walker's committee has worked on that a great deal, and I presume that it has been taken up with the Federal Reserve Board. But I am not certain of it myself.

The CHAIRMAN. Very well. You may continue with your statement.

Mr. RUSSELL. Now, there is one other provision of title IV. This is the same consumer-credit convenience that Mr. Deane referred to on yesterday, to have them insured under section 3 of title I of this act.

Title IV also amends the Farm Credit Act of 1933 to authorize production-credit associations to make loans to farmers for home alterations, repairs, and improvements, and to avail themselves of the benefits of insurance under section 3, which provides for consumer-credit advances.

Title IV also amends the Federal Reserve Act so as to permit banks to make or hold mortgages insured by home-credit insurance corporation without restriction as to the amount of the loan in relation to the value of the property and without the 5-year limit on real-estate loans; also to permit banks to make loans to finance construction of residential or farm buildings, having maturities not to exceed 6 months, whether secured by a mortgage or not, which shall not be considered loans secured by real estate but shall be classed as ordinary commercial loans, but no bank is to invest more than 50 percent of its paid-in capital in this manner. If accompanied by an agreement of an acceptable person or institution to advance the full amount of the loan, upon the completion of the building these loans are made eligible for discount as commercial paper under section 13 of the Federal Reserve Act, as amended.

Now, Mr. Chairman and gentlemen of the committee, I believe that is a fairly complete statement of the purposes of titles II and III of the bill, upon which I have worked primarily.

I should like to state to the committee that the President called upon us, as you know, in December, to look into the question of the situation of this type of savings, and whether or not it is appropriate to ask for insurance of these funds. We have been studying it since, and we have conferred very carefully with the people engaged in that business over the United States, and with other people who have had experience with bank-deposit insurance, and with people who have had knowledge of this situation.

We think that title III is in such shape that it will function, and that it will be reasonably acceptable, although there is to my knowledge pretty strenuous objection to some provisions in it. Some think the reserves are too high, and that that would be too much of a drain in the next 5 or 10 years. Of course, that would be proven when built up. However, the reserves that have been planned here have been pretty carefully planned, and they are sufficiently safe. They are at least four times the average reserves that these institutions have had in the past.

Senator KEAN. Yes. And if they had had more in the past, and had not had those loans that came due that they had to pay off so many shares, they wouldn't be in the trouble they are in today.

Mr. RUSSELL. That is exactly true, and that is the reason why it calls for higher reserves.

Senator KEAN. The trouble with the building and loan associations was that they went into the banking business without any reserves at all.

Mr. RUSSELL. Yes, sir. And one provision here is to permit this Insurance Corporation to control them in the contract they can sell, so that the Insurance Corporation can keep them out of the

banking business and make of them the long-term savings institution they were intended to be.

Senator ADAMS. Mr. Russell, have you any estimate as to the amount of these accounts which would come within the range of insurance?

Mr. RUSSELL. The amount of the accounts?

Senator ADAMS. Yes.

Mr. RUSSELL. There is approximately $7,000,000,000 in these institutions now, if they all come in. How many of them could qualify is a guess, but I think it a fair guess to say that at least half of them can qualify now.

Senator ADAMS. What would be the effect on the standing of those that could not qualify? I mean as to their public standing.

Mr. RUSSELL. I do not think the effect would be the same as it has in the banking business. As we all know, the banks almost had to qualify somehow or close up. I do not think it would be the same in this case, because these institutions are not subject to run. Folks have tried to make a run but found they could not succeed. I do not think it would be that effect. It would, of course, result in the long run in those institutions that were not insured being unable to get the money of the public. I think the public's savings would flow to those that were insured. However, I might say that those that could not qualify for this insurance, being impaired, are nearly all institutions in process of slow liquidation now. So that I do not think the passage of this measure would do anything except leave them where they are, namely, in the process of slow liquidation.

Senator ADAMS. Except in the case of those in the process of restoring themselves through proper management, might it not impede that process?

Mr. RUSSELL. It may be that some that are 98 percent solvent, and that could not get in here, they might from their earnings, having all their assets out at about 6 percent, that they might restore that solvency within the next 6 months. This provision leaves it open so that they can get in 6 months from now. They could get themselves on an unimpaired basis and come in 6 months or 2 years from now.

Senator BULKLEY. When the system is in operation then new institutions might enter later on, I take it?

Mr. RUSSELL. Yes, sir.

Senator BULKLEY. And do they have to contribute to whatever surplus has been accumulated?

Mr. RUSSELL. Yes, sir. The provision is that it requires Federal savings and loan associations to qualify for this insurance. It authorizes members of the Federal Home Loan Bank System, other members, to qualify, and authorizes the Federal Home Loan Bank Board to exclude members of the Federal Home Loan Bank System that do not qualify, by 1936, I believe it is. And the provision is, then, that you have a method of getting out. And provision is made on the question you asked as to what is going to happen to those that come in after the reserve is built up; the provision is that they shall pay an admission fee on an equitable basis. It says in the bill "an appropriate contribution." It reads as follows:

> Any applicant for insurance, after the first year of the operation of the Insurance Corporation, shall pay an admission fee which, in the judgment of the trustees, is an appropriate contribution.

I think that ought to be changed to read "equitable contribution."

Senator BULKLEY. That is carried to surplus account, then?

Mr. RUSSELL. Yes, sir. In other words, if one waits until they build up a 4-percent reserve, he must then make an equitable contribution to that common reserve that is in the insurance fund. That, of course, will contribute toward causing institutions to come in if they ever intend to come in.

Senator BULKLEY. What is the idea in leaving that open to the discretion of the Board instead of saying they must contribute to the amount of the surplus that has been built up?

Mr. RUSSELL. A great deal of discussion was had on that question. Our opinion was that it ought to be left so that it could be adjusted reasonably, because it will frequently be difficult to determine exactly what the surplus is. Suppose the Insurance Corporation has taken over $50,000,000 of assets and has not liquidated them yet. It will be very difficult to determine what the loss is in the $50,000,000 it has on hand.

Senator BULKLEY. Yes; but we could put in the statute that the contribution should be in proportion to the surplus as computed by the Board.

Mr. RUSSELL. Well, you could do that.

Senator BULKLEY. Wouldn't that be better than to leave it wide open? What other considerations would come into it?

Mr. RUSSELL. In addition to the difficulty of determining what the surplus is at a given time, there might be considerations as to the membership in the insurance fund. It might be the case, as it has been in other fields of business, that it would be desirable to have all these institutions in, and it might be, with those already in, that the Insurance Corporation itself would feel it should make some concession.

Of course, we know this, that there are mutual fire insurance companies, with very substantial surpluses, which will let a person in today and give him the full benefit of its surplus, without requiring him to make any contribution at all. I can go in the Southern Mutual, of Athens, Ga., and it has enough in reserves to pay all the expense, and yet I can get in without any contribution if I am eligible as a home owner to insure in that institution. That is true of the Ohio Lumbermen's and others.

Generally speaking, it has not been customary to make those coming in later to contribute to the surplus. And in the life-insurance field, life-insurance companies have their large surpluses, but they do not make one contribute anything to that surplus when he comes in.

Senator BULKLEY. The difficulty about the matter as I see it, if you leave it wide open to the discretion of the Board, is that there might be inequities in the matter of permitting one association to come in on better terms than anybody else.

Mr. RUSSELL. Of course, if that fear is felt it might be covered by saying upon an equitable contribution, which, however, shall be uniform. And you would put it on a uniform basis.

Senator BULKLEY. Well, I should like to have everybody feel they will get the same deal as their neighbors. Of course, I would not assume in advance that a Board would deliberately play favorites,

but their judgment might change from time to time in such a way that there would be the net result of one concern getting favored treatment as against another.

Mr. RUSSELL. I would think the appropriate way to cover what you suggest would be by a proviso placed at the end of the sentence, at the bottom of page 27, reading as follows:

Providing that the contribution to be made each year shall be fixed annually and be applied alike to all institutions admitted.

Or words to that effect.

Senator KEAN. Do you suggest that as an amendment?

Mr. RUSSELL. Well, I say I think that would accomplish the purpose suggested by Senator Bulkley.

Senator KEAN. At the bottom of page 27?

Mr. RUSSELL. Yes, sir.

Senator BULKLEY. Well, you see no objection to that, do you?

Mr. RUSSELL. I see no objection to that at all.

Senator KEAN. Now, where would that go?

Mr. RUSSELL. At the end of page 27, some such words as these:

Provided, That the contribution to be required shall be fixed annually and applied to all applicants alike.

Senator COUZENS. Did I understand you to say that 95 percent of these building and loan associations are mutuals?

Mr. RUSSELL. I think at least 95 percent of the money in them is in mutual institutions. Now, in the matter of the number of institutions there is a larger percentage than that of stock companies. Probably 15 percent in number of the institutions are stock companies, because in the West and in certain portions of the South there is a good number of stock companies, but they are not very large.

Senator COUZENS. Are they affected by this bill in the same way as the mutual companies?

Mr. RUSSELL. This bill would admit all institutions operating under State law as building and loan associations, or homesteads, or cooperative banks. But it gives this Insurance Corporation the power to regulate the kind of security it would sell.

Senator KEAN. The most of the States have laws such as would admit them to qualify under this act?

Mr. RUSSELL. I think building and loan associations in all States could qualify under it.

Senator KEAN. And you have no doubt that the New Jersey companies could?

Mr. RUSSELL. I think the New Jersey associations could qualify under it. Of course, in every State there are some associations that could not qualify at the present time because they are slightly impaired, at least in some cases.

Senator KEAN. In New Jersey while they may have lent too much money it was all on first mortgages.

Mr. RUSSELL. They are all first mortgages, and they are all mutual institutions, so far as New Jersey is concerned.

Senator KEAN. And some of those mortgagors are paying up.

Mr. RUSSELL. Many of them are paying up. Those institutions that are even slightly impaired can bring themselves back pretty rapidly because their assets are earning 4 or 5 percent, and if they are impaired 4 percent now they can reasonably quickly bring them-

selves back. If they cannot do that, a mutual institution of this kind can get its people together and write its stock down to a parity and then qualify.

Senator STEIWER. Mr. Russell, I was called out of the room for a little time. Earlier in your statement I heard you say that you would pass by consideration of titles I and II and devote yourself chiefly to title III of the bill, which you had been requested to discuss with the committee.

Mr. RUSSELL. Yes, sir.

Senator STEIWER. I took it from what you had said, and from your reference to your manuscript, that you had given some consideration to titles I and II.

Mr. RUSSELL. Well, I have worked on them with the gentlemen who have done the principal work on them.

Senator STEIWER. But you did not prepare those titles of the bill?

Mr. RUSSELL. No, sir.

Senator STEIWER. Have you any suggestions to leave with the committee with respect to titles I and II of the bill?

Mr. RUSSELL. In my opinion title I, section 3, of the bill, providing for the so-called "consumer credit" that Mr. Deane discussed yesterday, is just the best plan I have ever seen suggested anywhere to employ the labor that is completely idle today but that usually works on houses.

I believe that title I, section 3, would get out well nigh a billion dollars of money, and it cannot possibly cost the Government more than $200,000,000. I think that provision would put a lot of people to work.

Now, so far as its financial soundness is concerned, I hope the committee will incline its view somewhat to the efforts to put men to work rather than to it as a financial structure. Furthermore, I do not consider that it has any permanent influence upon the home-mortgage business. It is not a permanent solution of the problem itself, but is a temporary thing that will improve housing and put a lot of people to work.

Senator STEIWER. Has your own Board considered this bill?

Mr. RUSSELL. Yes, sir. The Federal Home Loan Bank Board has considered some phases of it for many months, and all phases of it for some time. We have been in repeated conference with the Emergency Council.

Senator STEIWER. Are you prepared to say that your Board supports all titles of the bill?

Mr. RUSSELL. I believe Mr. Fahey is going to appear tomorrow, Senator Steiwer.

Senator STEIWER. On behalf of the Board?

Mr. RUSSELL. Yes, sir.

Senator STEIWER. Well, you can leave that to him. There was some reference made to the issuance of guaranteed bonds. Guaranteed, as I understood, both as to principal and interest. Is there any limit as to the total volume of such bonds that may be issued?

Mr. RUSSELL. Title I of the bill has two things in it. One is a mortgage plan for open or secured advances of not over $2,000, which is to get people to work. The other thing in Title I is insurance of individual mortgages.

Now, in connection with the first item, section 4 of title I, it authorizes the Home Credit Insurance Corporation to make advances to financial institutions on the security of consumer credit advances at face value.

Section 5 then is the one that provides for insurance on specific mortgages. Then a later section in title I authorizes the Home Credit Insurance Corporation to issue debentures for the purposes of sections 4 and 5.

Senator TOWNSEND. Are the debentures to be guaranteed?

Mr. RUSSELL. Unconditionally to be guaranteed as to principal and interest by the United States Government. And these debentures are to be issued for the purpose of carrying out Section 4, which provides for loans to financial institutions on this consumer credit paper, and paying any losses that may accrue to these individual share mortgages, and that is unlimited as to amount.

Senator STEIWER. You mean it is unlimited so far as the terms of the bill are concerned.

Mr. RUSSELL. Yes, sir.

Senator STEIWER. It is limited so far as any practical business considerations are concerned?

Mr. RUSSELL. The bill limits the amount of existing mortgages that may be insured under the insurance of individual mortgages at $2,000,000,000.

Senator STEIWER. Is there any limitation as to time?

Mr. RUSSELL. It limits the amount of existing mortgages that may be insured to $1,000,000,000, but it does not put any limit on mortgages on newly constructed houses at all, except that it cannot continue under this bill to write that insurance except up to July 1, 1937. So that there is a limit of $1,000,000,000 on existing mortgages, and there is a limit on whatever new houses would be constructed that would come under this insurance from the time it comes into effect until July 1, 1937, which would not be more than a billion dollars. So there could not be more than 1 or 2 billion dollars of insurance that could be written under it.

Senator STEIWER. This portion of the bill is very interesting to me. I should like your judgment on it. How would it work in practice? Suppose a mortgage were made and went bad, under the insurance provision of the bill what would be the United States Government's liability?

Mr. RUSSELL. Senator Steiwer, the bill does not fix the terms of the insurance. The bill in section 5 just simply authorizes insurance on those mortgages on a mutual basis.

Senator STEIWER. Is that on pages 6 and 7 of the bill?

Mr. RUSSELL. Section 5, page 6 of the bill, reading as follows:

The Corporation is authorized and empowered, at any time prior to July 1, 1937, upon terms to be determined by it, to insure amortized mortgages and like liens on owner-occupied homes or low cost housing projects, when presented by approved financial institutions.

Now, the Corporation is given full power to make regulations, but it provides that they shall be, on the basis of cost, reading as follows:

Such insurance by the Corporation shall be based as far as practicable on the mutual principle so as to be self-supporting and involve no greater cost to mortgagors or mortgagees than that needed to cover the risk involved plus necessary administration expenses.

So that the Corporation would have to make rules as to how much risk it is going to insure, and what rate it is going to charge; although it would be compelled to make a rate that it would estimate would cover losses.

Senator STEIWER. I think that clearly answers my question so far as this bill is concerned, but still my question remains unanswered because I do not know, of course, the terms that would be determined on by the Corporation. Has a plan been worked out by which those terms have even been estimated, so that we could have some way of knowing how the thing will work, and just what would happen to the United States in case those mortgages are disappointing?

Mr. RUSSELL. A great deal of study has been given to that question but I have no figures on it. I would very much prefer that Mr. Riefler, who I believe is here, or maybe Mr. Edison over there, would give you those facts, or somebody who has studied that question.

Senator STEIWER. We will be glad to have the facts and figures. It was not the figures that I had in mind in asking the question, however. What I am trying to get at is what would the mode of operation be. In other words, would the United States, would the Corporation, take over the property in a case where it has to make good the guarantee of insurance?

Mr. RUSSELL. It is my understanding that the plan is—although it is not in this bill, and this is a board to be appointed by the President—that it could make a definite plan under this bill. Indeed, it could make any plan that appeared to the board to be a sound plan on a mutual basis and self-supporting, as it says. But as I understand the situation the plan is that the approved mortgage institution would submit a proposed mortgage to this Home Credit Insurance Corporation, which conformed to the regulations that the insurance corporation had laid down as to long-time amortized mortgages as to interest rates and terms in general. If that mortgage were approved by the insurance corporation the lender would make its disbursement on the loan and take from the insurance corporation a certificate of insurance on that individual mortgage. The mortgagee would collect from the mortgagor the sum that had been fixed as an insurance premium on it.

As Mr. Riefler said on yesterday, that would go into a special fund, that mortgage being put into a special group of similar mortgages, and that special fund would carry whatever loss came on it, and if there were any money left in it at the end of the period the borrower would get his proportionate share of it. If there were losses the holder of the mortgage, as I understand the plan, would be required to foreclose, pay the expense of foreclosure, and so forth, and take the property over, and deliver a good fee-simple title to the insurance corporation. The insurance corporation would issue a debenture, fully guaranteed by the United States, to the insured for the face amount of the unpaid balance of the debt. Under this bill as written it could be as far as the full amount that the party had invested in the property at that stage. And then, of course, the insurance corporation would have to dispose of the property as best it could.

Senator ADAMS. Would there be any preliminary investigation of the title, when the original guarantee was made, or would you

restrict it to what you now say you would insist upon, a clear title after foreclosure?

Mr. RUSSELL. As the bill is drawn it could be done either way. As I have understood in conferences at which I have appeared, the plan would be not to require a showing as to title until the Insurance Corporation was requested to take title. Mr. Watson is here, who drew this legislation in conference with Mr. Riefler, Mr. Walker and others, and he could tell you about that.

Senator ADAMS. When you put the question of title at the end, it is a sort of additional mortgage then.

Mr. RUSSELL. Yes, sir.

Senator BULKLEY. The point is that the lender is not insured against defect of title, but only insured against the failure of the borrower to pay.

Mr. RUSSELL. The insurance contract as I have understood it is that in event the lender has to take the property over and does deliver a fee-simple title to the Insurance Corporation, the Insurance Corporation would give him a debenture of so much for it.

Senator BULKLEY. The effect of that is that the lender is not insured against any title defect.

Mr. RUSSELL. That is true.

Senator BULKLEY. He is only insured against failure to pay.

Mr. RUSSELL. Yes.

Senator KEAN. What would the borrower have to pay for this? In the first place, he would have to pay down so much, and what is it that he would have to pay?

Mr. RUSSELL. The plan is that this would be amortized over 20 years, we will say, and——

Senator KEAN (interposing). But I mean to say, to begin with he would have to pay on his mortgage to the building and loan association, and he would have to pay 6 percent, wouldn't he?

Mr. RUSSELL. Of course, this is written so that any kind of financial institution can make a mortgage, a building and loan association or anybody else. But I do not think a building and loan association could borrow under it under their present laws.

Senator KEAN. So you do not think this applies to building and loan associations?

Mr. RUSSELL. I do not think under present laws that building and loan associations could operate under that method of lending; no, sir.

Senator STEIWER. Then who could?

Mr. RUSSELL. A great many lenders could, and banks could, I think.

Senator STEIWER. Do you mean that a national bank could?

Mr. RUSSELL. Special provision is made for national banks to do it in an unlimited way. And State banks could, and mortgage companies could, and——

Senator KEAN (interposing). Well, let us see what you have. You have mentioned banks.

Mr. RUSSELL. And trust companies could, and mortgage companies could.

Senator TOWNSEND. Could a State bank operate as freely as a national bank under it?

Mr. RUSSELL. Well, that would depend upon State laws, but I think under most State laws State banks could operate under it. I am not well enough acquainted with the State laws, of course, to give you that in detail.

Senator COUZENS. Does this bill only apply to owner-occupied houses?

Mr. RUSSELL. Yes, sir; with the exception that it applies to low-cost housing projects.

Senator COUZENS. In the case of corporations or individuals, or both?

Mr. RUSSELL. There is not a thing in this bill on the question of low-cost housing projects except the four words, to be found in section 5, which are:

Low-cost housing projects.

That is all there is in the bill as to low-cost housing projects.

Senator COUZENS. So that a man who owned 5 or 6 houses he was renting might not get any relief under this bill.

Mr. RUSSELL. I do not think this bill would make provision for rented houses; no.

Senator COUZENS. Then there is no provision in the bill that provides for that?

Mr. RUSSELL. Well, of course, there is this provision, that a lot of national banks lend on real estate and they have a remedy that would give relief to commercial property; and the provision to insure savings in building and loan associations, if it starts them back to functioning and that would help, for they lend on property substantially.

Senator KEAN. Do you say that building and loan associations could not take advantage of this bill?

Mr. RUSSELL. I say the insurance of individual mortgages under title I.

Senator KEAN. What do you figure they could lend on? What would they get? What would they have to charge the home owner?

Mr. RUSSELL. It is limited here not to exceed 6 percent. And Mr. Riefler thought yesterday, as I heard him testify, that in the East money could be had at 5 percent on this type of mortgage.

Senator KEAN. And they would charge him 6 percent, plus what?

Mr. RUSSELL. Plus whatever the insurance cost.

Senator KEAN. Plus one half of 1 percent?

Mr. RUSSELL. Well, I do not know what the insurance would cost. Of course, the mortgage guarantee companies tried one half of 1 per cent, but it did not work out so well. This does not fix the cost. It just says that they shall assess what it would cost to make it self-supporting.

Senator KEAN. That is all quite indefinite. And you cannot tell us what it will be.

Mr. RUSSELL. That question is left to regulation.

Senator KEAN. For instance, if I wanted to build a house to cost $5,000 I would have to pay 6 percent plus something that you do not know what it would be, and neither does anybody else, is that it?

Mr. RUSSELL. That is right. Of course, this just simply authorizes this corporation to approve rates not to exceed 6 percent. And it is the thought that when these mortgages are insured they can bring that rate down to 5 percent. Of course, whatever the rate

might be, you would have to pay it in addition to the cost of insurance.

Senator KEAN. But I am now trying to get at the cost of the insurance.

Mr. RUSSELL. Well, I do not know what the cost of the insurance will be.

Senator KEAN. That is important, don't you think?

Mr. RUSSELL. Yes, sir; I think it is important, but I do not know. I simply cannot answer your question, because I do not know.

Senator KEAN. Well, what basis are they going to figure it on?

Mr. RUSSELL. Mr. Riefler said yesterday, I believe, that it was based on 1 percent of the original face of the mortgage, per annum. A $10,000 mortgage would be $100 a year until paid off.

Senator KEAN. One per cent?

Mr. RUSSELL. Yes, sir.

Senator COUZENS. That would make the mortgagor pay 7 percent if he was paying 6 percent.

Mr. RUSSELL. Yes, sir. Well, it would be more than that, because his statement was 1 percent of the original face of the mortgage for the period of the loan. If you figure it out in that way, it is 2 percent.

Senator KEAN. That would be 2 percent, then.

Mr. RUSSELL. This, however, does not fix the rate. But it fixes it so that this corporation shall make it as low as the actual cost.

Senator KEAN. That would make a total of 8 percent for the money.

Mr. RUSSELL. That is the absolute maximum; yes, sir.

Senator TOWNSEND. That is on the assumption that the rate is fixed at 6 percent.

Mr. RUSSELL. Yes, sir. It is on the assumption that the rate mentioned by Mr. Riefler yesterday would be applied. But as I say, I do not know whether that is the proper rate or not.

The CHAIRMAN. That would not save the borrower very much.

Mr. RUSSELL. On that basis it would be higher than the average cost of money today; yes, sir.

Senator COUZENS. Have you any record of what the officials of building and loan associations receive by way of salaries and compensation?

Mr. RUSSELL. Yes, sir. We have some 3,400 of them down at the Federal Home Loan Bank Board, with a record of their compensation. I will say, Senator Couzens, I think it is the lowest that anybody gets in the United States. We could get you the record on it. But I will say that their compensation is down very, very low.

Senator COUZENS. Is that because they share in the profits inasmuch as it is a mutual corporation?

Mr. RUSSELL. I do not know why it is. It just looks like they work cheaper than anybody else, to me. I have started these things, and know of them, and know that they do not get paid very much. There doesn't seem to be any good reason at all for it that I know of.

Senator WAGNER. Is it because it is a sort of community enterprise?

Mr. RUSSELL. Yes, sir.

Senator WAGNER. And there is a civic motive in it?

Mr. RUSSELL. Yes, sir. In New York there are about 400 million dollars in savings and loan associations, and they are almost the only things that there has not been a failure in in the State.

Senator WAGNER. I know that the men who administer them are very low paid.

Mr. RUSSELL. Yes, sir. They are paid just nominal salaries.

Senator KEAN. The original building and loan associations were started as community enterprises, and the people practically gave their services for nothing.

Senator WAGNER. That is right.

Senator KEAN. They worked in the evening once a week, and they gave their services practically for nothing.

The CHAIRMAN. The secretary would receive a nominal salary for his work.

Mr. RUSSELL. Yes.

Senator KEAN. Since that time they have gradually grown up where they have been successful, and they have come around and wanted more money. And one of the troubles of building and loan associations so far as the State of New Jersey goes is that the money in them usually goes to lawyers for examining titles. And every young lawyer wanted to start a building and loan association so that he could be counsel for it.

Mr. RUSSELL. And the most of them did, didn't they?

Senator KEAN. Yes.

Mr. RUSSELL. There are 1,500 of them up there I see.

Senator TOWNSEND. Would you care to express yourself more fully on title II of the bill?

Mr. RUSSELL. I do not remember title II, but Mr. Watson is here, if you would like to hear him.

Senator TOWNSEND. We would be glad to hear him.

Senator COUZENS. Suppose we let Mr. Watson testify.

Mr. RUSSELL. I would prefer that you get Mr. Watson to discuss that title of the bill.

Senator STEIWER. One more question about title I of the bill. Have you any suggestions to make to the committee about further safeguarding the interests of the corporation and the Government with respect to insurance on mortgages?

Mr. RUSSELL. I do not know of any suggestion I could make on that subject. The subject of insurance on mortgages is one that I do not know much about.

Senator STEIWER. Is Mr. Watson familiar with that also?

Mr. RUSSELL. I hope so. There he is, right over there.

Senator COUZENS. Suppose we call Mr. Watson.

The CHAIRMAN. I understand that Mr. Riefler is prepared to go into that.

Mr. RUSSELL. I think Mr. Riefler has made extensive studies of it.

The CHAIRMAN. I am informed that he will come tomorrow morning.

Mr. RUSSELL. Is that all, Mr. Chairman?

The CHAIRMAN. I believe that is all, if there are no other questions. (After a pause, without response.) We thank you, Mr. Russell.

Mr. RUSSELL. I am glad to give any information I can.

The CHAIRMAN. Mr. Stewart, you wanted to be heard on this matter, I believe?

Mr. STEWART. Yes, Mr. Chairman.

The CHAIRMAN. Come forward to the committee table and state your name, residence, and occupation.

STATEMENT OF MACO STEWART, ATTORNEY AT LAW, GALVESTON, TEX., CONNECTED WITH BUILDING AND LOAN ASSOCIATIONS AND TITLE INSURANCE COMPANIES

Mr. STEWART. My name is Maco Stewart. I am a lawyer. I am now and have been since its organization the president of the largest building and loan association in Texas. I am also now and have been for many years president of the largest title-insurance company in the South, that operates throughout Texas and has about 100 offices. I have been for many years a member of the national organization of the title-insurance people of this country, and by reason of being president of a building and loan association that I have mentioned——

Senator KEAN (interposing). Did you start it?

Mr. STEWART. Yes. I started it in 1911—no, in 1921, as to that association. I have been connected with the national organization of the building and loan associations, the United States Building and Loan League, for a long time. For nearly 40 years I have been attorney for the Peoples Loan and Homestead Co., of Galveston, Tex., and for about 25 years for the Galveston Building and Loan Co., being the only companies of any size that operate in my town. I merely mention that to show you that I should at least know something about this subject. I own a great deal of real estate personally. And, incidentally, I have a hotel, and mortgage notes, and am in touch with the business pretty largely over the country, and I belive, or at least I hope, that I will be able to be of some assistance to this committee in this matter.

The CHAIRMAN. What is the name of the company that you referred to?

Mr. STEWART. The Stewart Title Guaranty Co.

The CHAIRMAN. It is not a life-insurance company?

Mr. STEWART. No; but I have a fire-insurance company. I have no life-insurance company.

The CHAIRMAN. You may proceed.

Mr. STEWART. I have had many conferences about this housing proposition with Senator Sheppard, with Senator Connally, and both of these Senators and myself have had numerous conferences, first with Mr. Ickes and then with Mr. Robert D. Kohn of the Housing Corporation. And I have talked also with Mr. Riefler concerning this matter, and also Mr. Frank Walker.

I have given this matter all the study I am capable of or could give it. I believe that what is needed in this country is to start housing the people. I have driven thousands of miles over this country in order to get first-hand personal knowledge of the housing conditions.

I will say that there are about 4,000,000 unsanitary houses in the United States, according to the United States census, houses having neither screens, baths, toilets, electric lights, or running water.

Senator WAGNER. How many houses did you say?

Mr. STEWART. About 4,000,000.

Senator BARKLEY. Is that urban property?

Mr. STEWART. That includes all property from 18 to 43 years of age. They are old and obsolete, both city and farm property. I have exact figures with respect to the larger cities of Texas, where our cities run up to 300,000. And I have a communication I will leave with you touching on that subject.

The CHAIRMAN. What proportion of those 4,000,000 are farm-houses?

Mr. STEWART. I could not answer that question. But I will say this, that in the city of Galveston, where I live, being a city of about 50,000 people, there are about 1,000 insanitary houses that people slept in last night that a pig ought to have slept in. There are at least 10,000 such houses in Houston, 10,000 in Dallas, 20,000 in San Antonio, and more than that in New Orleans.

In the city of San Antonio a committee was appointed to see what might be done about the housing situation. There a prominent physician was at the head of the committee. I attended a meeting and heard his statement. He said that deaths from tuberculosis in the city of San Antonio were about 170 per 100,000, being the largest death rate from tuberculosis of any city in the United States. And the next city to that is Nashville, which condition is almost entirely attributable to the miserable housing conditions under which the people live.

Now, I am not primarily interested in trying to help the fellow who is a tenant and who is living in these insanitary houses, but what I want to see done is to put to work the people in the 72 industries that contribute to the construction of the very small residence. It is not only the carpenter and the mechanic in the city, but the sawmill worker, the nail-factory worker, the glass-factory worker, the wallpaper-factory worker, and so on, who would be benefited. There are 72 industries whose product goes into construction in one of the ordinary small residences. And, as near as I can get the figures, 22 percent of the rail haul of the United States is in the hauling of building materials when you exclude the hauling of their own fuel oil and coal.

My thought is if we can find some way to get the housing industry going, that we would give employment to not only the carpenter and the mechanic in the city but to the sawmill worker, the glass-factory worker, the wallpaper-factory worker, and so on, and with these people having money they could buy the products of the farm, and the farmer then having money could buy shoes and clothing, and all these factories would go to work. If you would make this a question of employment and not a question of money, you would get the proper result. The association of which I am the head has a large amount of cash in bank today which we would be very glad to lend out.

As Mr. Russell has stated here, the resources of the existing home-loan banks have not been touched. We have not used the moneys

they have already been provided with. And why not? There is nobody that wants to build houses. Now, the question is: What if anything can be done to bring about the construction of houses?

I have a plan written out or I would not be here. I would not come before you if I did not think I could offer something constructive. As I say, I have a plan that I will leave with the committee, but the substance of it is this: That through some existing instrumentality, not another one, there would be loaned in each community and just in order to visualize it I will say in the city of Dallas, the moneys necessary to rebuild 10,000 insanitary houses that are there; or rather to have the old insanitary houses pulled down and new ones constructed.

It is not practicable to go into a general condemnation scheme to condemn houses, because that is too slow a process. You cannot get anywhere through the courts, and I say that because we have tried that plan in Texas.

Well, what can you do? By adopting a proper sanitary code under the police power a city can prevent landlords from renting and tenants from occupying insanitary houses, and the landlord being confronted by having to pay taxes on vacant houses would be forced to build sanitary houses if he could find the money with which to do it, which he cannot do today, but with this bill which I have prepared and will leave with you, there is provided a method for securing any money needed through existing agencies.

Senator COUZENS. What class of tenants would occupy the houses that you would propose shall be demolished and replaced?

Mr. STEWART. My thought about that is this—that having put men to work, if this thing could be made universal, having put everybody to work, some people who are living in them now would have an earning capacity out of which they could pay rent. The trouble today is that everybody is out of a job.

I have heard some figures reeled off to you of what could be done, but today in coming over here I stopped at a newsstand and got some papers. These papers were not picked out for the special purpose, but I just took two articles from the Times-Picayune of New Orleans, one for the 12th and the other for the 15th of this month, and these are very enlightening as to what building and loan association stock in Louisiana, called "homesteads", is worth today. And I will say that if the Government had guaranteed them the Government would be in a mighty bad fix, in my humble judgment.

For illustration—and these are quotations of what these homestead stocks in Louisiana are worth today, or at least are supposed to be worth, for that is what they would probably sell for—it says the American is quoted at 40 cents. The highest valuation anywhere here is the Dixie at 72½ cents, and it runs down, for instance, to the Guardian Homestead, which is selling at 32 cents on the dollar. In other words, a $100 share would sell for $32. Now, that is in the Times-Picayune of May 12.

In the Times-Picayune of May 15 I find another list, showing the Conservative selling down to 31 cents on the dollar and the Guardian 32 cents on the dollar. I mention these to show you that loans on homes cannot be converted into money. And since no building and loan association by any legal legerdemain can be

made worth 100 cents on the dollar in such times as these as this country is now facing—and this isn't the only depression the country ever had. If this were the only one, it would be a simple matter. If I had known what I learned in Senator Burton's book on Crises and Depression Periods at the beginning of this depression, I might have been better off. He deals with the depressions we have had, beginning, I believe, in 1818. He shows the depression from 1837 to 1843, which lasted 6 years, and he depicts that depression just as bad as this one. And there was the depression of 1857, and so on down. And this is not the last depression we are going to have. And if we go into guaranteeing these things, I am afraid, in fact, I think I know, that 1 percent won't take care of it. And I will tell you why I know that.

Senator COUZENS. You are getting away from my question.

Mr. STEWART. I beg pardon, Senator Couzens. I did not mean to.

Senator COUZENS. You said something about houses being from 18 to 43 years old.

Mr. STEWART. Yes, sir.

Senator COUZENS. And that if those old houses were torn down and new ones put in their place the occupants of those houses would be able to pay the rent for the new houses. Is that right?

Mr. STEWART. That is my thought, because I am hoping that everybody will go to work.

Senator COUZENS. What have they been doing all those 43 years? They must have been living in those houses from 18 to 43 years, at least. Why have they been required to live in those houses all that time, because we have not had a depression during all those years?

Mr. STEWART. Well, I guess it is this way: The poor you always have with you, and they always live in the poorest and cheapest things they can get into.

Senator COUZENS. Yes; and they still will do that, won't they?

Mr. STEWART. My hope is that, by universal employment, if such a thing can be brought about, their condition will be bettered.

Senator COUZENS. I hope so, too, but I do not see how it will work out from the experience of the past. What I am concerned with, and I am not trying to discredit all this optimism you have but rather to find out why these people have been required to live in these old houses before the depression began.

Mr. STEWART. You will have to ask a wiser head than mine. I don't know.

Senator COUZENS. I should like to know that, because, judging the future by the past, I fear we will be back to the same old condition unless something new develops, more than we have now.

Mr. STEWART. I am afraid that is true.

Senator COUZENS. If that is true, how will you be able to rent the new houses, replaced when you demolish the old houses, at the necessary return asked by the owner and still a price that the occupant can pay?

Mr. STEWART. I believe they will be able to do that if you can put the people back to work. It will take, as near as I can guess at it, many years to rebuild America and to substitute for these worthless houses sanitary houses that the people can properly live in. Now, what I am driving at primarily is this: Under this bill as now

proposed, and by all the plans I have heard talked about, it is proposed to build a lot of additional houses. That won't take these people out of the insanitary houses. It will simply mean that the new houses will not be rentable.

I will take the case at Euclid, Ohio, where they have a scheme for building a lot of new houses. What is going to happen to the existing houses that are under mortgage now? They will become worthless, in my humble judgment. I may be wrong about that, but am giving you the best thought I have.

Senator BARKLEY. You say your theory is if they tear down all the old houses and build better ones, they will go into them.

Mr. STEWART. Yes, sir; that is my hope.

Senator BARKLEY. How do you propose to build new houses if you have to get the consent of the owners to tear down the old ones?

Mr. STEWART. No, sir; that is not my proposition. I am afraid I do not make myself clear on that.

Senator BARKLEY. Suppose you explain that.

Senator ADAMS. Mr. Stewart, as I gather from a part of the answer you made to Senator Couzens' question, the old houses at the time they were built were constructed in accordance with the customs of the times.

Mr. STEWART. Yes, sir.

Senator ADAMS. If you will take Mt. Vernon, today you would have to classify that as an insanitary house.

Mr. STEWART. That is correct.

Senator ADAMS. Yet it was one of the best houses of its day.

Mr. STEWART. Yes, sir.

Senator ADAMS. And if you tear down these old houses and replace them with modern houses, it would alleviate the living conditions.

Mr. STEWART. Yes. But how will we get rid of the old houses, was Senator Couzens' question.

Senator COUZENS. Pardon me, but what I want to know——

Mr. STEWART (interposing). You have two questions fired at me now, and I am trying to answer them.

Senator COUZENS. With respect for Senator Adams' question—and I appreciate his point—but the reason these houses have been required to be used for from 18 to 43 years, rather than being rehabilitated or demolished and new ones put up in their places, is lack of security of occupancy. He cannot continue to keep up the house.

Mr. STEWART. I think that is right.

Senator COUZENS. What I am trying to get at in all this legislation is, what kind of security are we going to give the workers and occupants of these homes so that they can maintain a decent home, the kind that we want them to have?

Mr. STEWART. That is what I am driving at: Going back first and answering Senator Adams' question, as I understand it—How are we going to get rid of insanitary houses and get work going?—we tried it in the city where I live by condemnation, but that is too slow. You cannot condemn a house and make the landlord pull it down because it is old and insanitary. But under the police power you can pass an ordinance that a tenant cannot go into such a house. Then the landlord will have a piece of property on which

he is paying taxes and getting no return, and he will have to replace it with a sanitary house. When he does that the poor man will have a better house to live in.

Senator BARKLEY. Congress cannot pass that kind of law.

Mr. STEWART. No, but——

Senator BARKLEY (interposing). It involves persuasion of the city authorities of every city to pass such an ordinance.

Mr. STEWART. Yes, sir. I know this in Dallas and Houston and San Antonio, where I have tried it out. I have written a city ordinance for them, and they are prepared to pass it, and public consent is behind them. And so it would be, I am quite sure, in every city, if they only knew that the landlord could go somewhere and get the necessary money.

Senator KEAN. One question right there: Suppose that you build these sanitary houses, and suppose you put a nice bathroom in them, do you think that many of those people would use that bathroom, or would they keep a pig in it, as has happened in some of the tenement houses?

Mr. STEWART. I think the best answer I can make to that question is to direct your attention to the fact that along about 1840—and the exact date I do not recall, but maybe it was 1848—the city of Philadelphia passed an ordinance that bathtubs—and they had just been inaugurated in that city at that time—as I say, they passed an ordinance making it unlawful to use a bathtub between November and April. If you pass such an ordinance you will find that situation, to some extent. I know that I have had many discussions with real-estate men about this very thing and have heard them relate their experiences with tenants. You will find that quite a number of people will put coal into a bathtub, and who won't wash themselves in a bathtub. But when the little dirty black pickaninny down in a back alley in some city gets the epizootic it will spread to your family and to mine, and so we better clean up. I am trying to help them to remedy the situation by making it easier to get money, and trying to get people back to work so that they can pay a reasonable rental.

Senator WAGNER. Don't you think you ought to do both; that is, help the men to get work and also serve the great social need?

Mr. STEWART. Yes, sir.

Senator WAGNER. I think this is a terrific indictment against our people, to say that if you give them the facility to lead a better life they will not take advantage of it.

Mr. STEWART. Lots of them will, and some will not.

Senator WAGNER. Of course, they will live a better life if you give them the opportunity. There would be no progress in the world anywhere if we were to take that attitude.

Mr. STEWART. Yes; I realize that.

Senator WAGNER. And I am surprised that anybody would take that attitude.

Mr. STEWART. I am simply relating to you our experiences.

Senator COUZENS. What about the case in Euclid, Ohio, that you referred to awhile ago?

Mr. STEWART. At Euclid they are lending some money, and they are going out there at the edge of Cleveland and are going to build

a lot of new houses, costing $4,000 apiece. What is the result? If I had a mortgage on a house in Cleveland my tenants would move out of the house on which I had the mortgage and would move into the new house at the edge of Cleveland; or they would pull my rents down, and then I would be in a bad fix.

And so it is that I say we do not need more houses in this country according to my observation, but we do need better houses in place of the worthless houses we now have. That is my thought about the thing in order to bring about the employment, and that is what I am interested in.

I will say that I own a hotel, but it does not pay. And why doesn't it pay? Because there is not the business going on to keep people moving and occupying hotels in this country. And my title insurance business does not pay. And on that subject I will say that I was made an offer by men that I believe knew what they were talking about, fully responsible men, with a title plant in one of the large cities in America, at a price that seemed to be a joke. I looked the plant over and found that it would be like selling me an elephant without the circus that should be a going concern. I did not want their title business. The title business is flat because there is no title-insurance demand. There is no selling of property. There is no mortgaging of property. That is true on the Pacific coast, and it is true in New York. I know the people who run the Chicago Title & Trust Co., and I know the people who run the Title Guaranty & Trust Co. in New York, and I know that there is no real-estate trading going on anywhere.

Senator BARKLEY. Are you opposed to the bill now before us for consideration?

Mr. STEWART. Well, I am not going to say I am opposed to it at all, but I am going to try to show you wherein I think it is deficient. There is one part of it I am sure the men who wrote it did not know enough about the past history of the country to know what they would be turning loose.

Senator BARKLEY. And what is that?

Mr. STEWART. The second part of the bill, that relates to national-mortgage companies.

Senator GOLDSBOROUGH. As I understand, the principle that you present is not the construction of more houses but the improving of those already existing.

Mr. STEWART. Not to improve them but to destroy them and to put others in their places, thereby giving jobs to the sawmill workers and to the carpenters and mechanics and the railroad boys who will be employed when the railroads haul the materials.

Senator COUZENS. Then you believe the Euclid, Ohio, proposition is all wrong?

Mr. STEWART. I won't say it is all wrong. It will give a certain amount of employment, and I think anything that will give a man a job is a good thing.

Senator COUZENS. Have you stated all of your objections?

Mr. STEWART. I will say this, that if the city of Cleveland had at the same time passed an ordinance such as I have indicated, and new houses had been built in place of those old insanitary houses, and instead of the new houses now being built, you would have killed 2 birds with 1 stone. That is all.

Senator COSTIGAN. Is the Euclid enterprise private or municipal?

Mr. STEWART. It is a private enterprise. There is no criticism of it at all. My point is that we would get further by pulling down an old house and putting another in its place. We will say that I own an insanitary house here and you own one there. What is the use of pulling mine down and putting a sanitary house in its place, if my tenant can move out of my property and over into your property, and you have an old house that is not worth $150 and you will rent it to him for $3 a week. The poor will go where they can get the cheapest accommodations. I want to get rid of these cheap accommodations, these insanitary houses.

Senator GOLDSBOROUGH. Then as I understand your proposition, you would pull down the old insanitary house and build a new house.

Mr. STEWART. That is the whole thing. And that could be accomplished in this bill that I have to present.

Senator BARKLEY. How much increase in rent would be involved?

Mr. STEWART. That would depend, of course, upon the community. It would depend upon the tax rate, and how much the new house cost.

Senator BARKLEY. You have to give some guarantee that the poor man who is compelled to rent one which is more expensive and modern, will get enough wages to pay it.

Mr. STEWART. Well, if this won't bring it about nothing can do it.

Senator BARKLEY. But how do you propose to do it?

Mr. STEWART. If he works in a glass factory he will have wages for making glass to put windows into the house.

Senator BARKLEY. But while you are pulling that down, what will he do?

Mr. STEWART. Yes, sir; that will give work.

Senator BARKLEY. But as to all people not working in glass factories and in lumber mills, what will happen as to them?

Mr. STEWART. If I can look ahead to the rebuilding of this country, the replacement of 4 million worthless houses with new houses, you will put everybody to work for 25 years. You could not do it in a month or a year or in 5 years in any case.

Senator WAGNER. Mr. Stewart, does it always result, where new low-cost housing is built, in an increase in rent as compared to the others?

Mr. STEWART. I do not know.

Senator WAGNER. I know of an instance that came to my attention where a certain number of owners of old houses, who had purchased them at the time when real estate was very high, were complaining because the Federal Government granted a loan to a limited-dividend corporation for the construction of new housing in that same section, and their contention is a very selfish one, I will say; but they said because real estate had gone down, that for a lower investment they could give a superior house, that is, superior facilities, if the money should be loaned, than was represented by the old houses, and I thought that was a very good reason for granting the loan. But they said it was unfair competition. But it does not always result that way, does it?

Mr. STEWART. I think that was the situation in a case I know of, and they were clients of mine, and they are against me 100 percent.

but the landlords are in the hopeless minority and the tenants are in the majority. I am in favor of giving work.

Senator BULKLEY. What is your idea in keeping a tenant at the same place where the old house was instead of going to a new place?

Mr. STEWART. No; that is not it.

Senator BULKLEY. I thought your criticism of the Euclid proposition was that it took people out of Cleveland.

Mr. STEWART. No. Let us take a city like Houston, of 300,000 people, and something I know about. Now, in Houston I have something like 70 pieces of property that have gone on foreclosure, that belong to our corporation. I do not get enough rent to more than pay the taxes and about 1 percent. Now, suppose somebody goes out and builds a lot more houses, then we will get less rent out of our houses. I do not think the need in Houston is for more houses, but for better houses.

Senator BULKLEY. I was trying to get at the practical way you would work it out.

Mr. STEWART. I would not care whether he stayed in there.

Senator BULKLEY. If he moves out, you have lost a tenant.

Mr. STEWART. But where would he go? If the city ordinance prevents further use and occupancy of that type of house, the minute he goes to the landlord, he says, "I cannot rent you this house."

Senator BULKLEY. But if the city of Cleveland, for example, passed such an ordinance, the people would move out to Euclid.

Mr. STEWART. You would not pass such an ordinance to take effect instantly. You would have too many people out in the street. You would have to have the city clerk notify them one after the other, or you would have the residents of 4 million houses on the street.

Senator BULKLEY. But what I am trying to get at is, What is your assurance that the people will come back to the same place?

Mr. STEWART. I do not know that they will, but somebody else will move in there, if you do not have too many houses. What we are doing now is building a lot of new houses.

Senator BULKLEY. I do not think that is sound.

Mr. STEWART. Maybe not. Maybe I am all wrong about this thing, but if you do not mind, I will get back to this bill.

Day before yesterday I picked up a Washington paper—I was not looking for this—and I found the following: "Reorganization of Real Estate Securities Guaranteed by National Surety Co." Then it gives the names of about 20 mortgage companies, and with a good many of them I am entirely familiar. I was attorney in a case and took testimony the other day in it involving about $6,000,000. I am familiar with the securities underlying the guaranty of the National Surety Co. Those properties have gone down, not because the loans were improvidently made—of course, many of them were—but they have gone down because of the generally bad condition in the country. If the United States Government had done what the National Surety Co. did, under the terms of this bill, it would have to shell out so much money that I do not know where in the world the Government would ever find it.

I will take up the bill itself. The bill has three features to it. The first feature is the insurance, the guaranteeing by the Govern-

ment of the payment by the borrower of the money that he owes, under $2,000, for this betterment and improvement.

What does that mean under the terms of the bill? It means that a man could buy a radio and have it installed in his home, or a Frigidaire, or a heating apparatus, with no security, and the Government would guarantee that that fellow is going to pay his bill. That is what this section 1 provides.

Let us get around to section 3. The third section provides that the Government will guarantee that the investor, for illustration, in a building and loan association will get his money. He cannot get his money if the securities go down and become worthless. The Government says, "We will pay you 10 percent spot cash now, half of the remainder in 1 year, and the other half in 3 years."

Suppose that had been the law in 1930, when things began to crash. By this time the Government would have had to dig up $8,000,000,000 in building and loan associations alone, and where would we have gotten the $8,000,000,000? It does not seem to me that is workable.

Let us take the next feature of the bill. This feature is one that I think probably the author of the bill did not understand, because he does not know the history of this country. It provides for national mortgage associations, with capital of $5,000,000, and with the right to issue 15 times that much of any kind of stock or debentures they want to. Is there such a thing operating in the United States today? There is, and it is skinning and swindling the public in a way that is just unspeakable.

Here is what they can do with one of these national organizations. I have fought this question out more times than one. I landed 17 fellows in the Federal prison for a thing like this some years ago. They get a charter, and they can divide their stock into common and preferred. They can provide for the selling of this preferred stock on the installment plan. They put their clerks, emissaries, and agents all over the country peddling this stuff all over the United States. One of my clerks, a poor little half-Mexican girl down in El Paso, told me the story.

The fellow said, "Wouldn't you like to save some money?" "Yes." "How much can you save?" "Well, I can save $20 a month."

That was fine. That meant that she could buy $4,000 worth of their stuff on time. Fool-like, she signed the document, and started putting in her money at the rate of $20 a month. Five months elapsed and she had put in $100. She got scared all at once, and wanted her money, and she went down and handed in her passbook, and said to the clerk, "Give me my money." The fellow counted her out $40 and a few nickels. She said, "How is that? I paid in $100." He said, "You subscribed for 40 shares of stock, and the membership fee is $1.50 a share. That is $60. Deduct that from $100, and it leaves $40."

She went to a lawyer, and the lawyer could not do anything for her, because that was the contract she had made. Gentlemen, hundreds of millions of dollars have come out of the pockets of the savers of this country through that kind of a scheme. The reports of my State show where a woman went in and bought, and was

paying $200 a month, and she had paid $600, and she discovered all at once what this thing was about, and she went in to get her $600. They said, "You cannot get any of it. You owe us more than that for membership fees."

That is what they can do under this thing, and there is no governmental control. All they do is to get a Federal charter. The Home Loan Bank Board has no control over them at all. They are just turned loose to go over the country and swindle the public, just as they did 40 years ago.

When I was a young lawyer, first starting out, one of the institutions I wound up was one of these national concerns. It paid out nothing to the investors. The Michigan Savings & Loan was one of them. I remember a fellow named Whipple had something to do with it. It has been 40 years ago, and I am not so sure about the man's name, but I am sure about the fact that the investors lost all their money. And under this very plan, plan no. 2, that is in here, that is what it is all about. You just create a national organization with $5,000,000 capital, and away they go. The sky is the limit.

A Presbyterian preacher told me this story. He went into a concern that is still operating. It has been running a long time. He said he subscribed for some of their bonds, and he paid so much a month for 10 long years, and at the end of the 10 years they said, "You cannot get your money for so many months, because on this date, that date, and the other date, your money was 1 day or 2 days late in coming in."

In that very same institution—and this all came out in the hearing before the Texas Legislature—a man subscribed to three of their bonds, $1,000 each, making $3,000. He paid $6.72 a month on each bond. In round numbers that is $20 a month. He paid for 17 months, and then broke his leg, or lost his job. He goes in to get his $340, and they say, "No; you have not anything coming to you. You cannot get a cent unless you have paid 18 months." He says, "All right. I will pay another month", and he goes in and pays the eighteenth month. Then what does he get back? He gets 40 percent of the principal he has paid in. That institution is advertising itself today in national magazines all over the country. The supreme court of the State of Nebraska denounced it unmercifully for what it was doing to the public, and refused to let them get into that State.

In Utah a concern mandamused the State authorities, and you ought to have seen the opinions the Federal judge out there wrote about that. And still they are doing business.

I got a law passed in my State aimed at that. Incidentally, on that subject, and while I think about this insurance of mortgages, in 1929 we had a hearing in the Texas Legislature concerning a title-insurance bill. I saw all these big title companies guaranteeing the payment of mortgages. I have a fair-sized title company. I am going to lay down and die some day, and I wanted my folks to have something left of my investment in my big title company. I said, "Let us put in this law a provision that the title-insurance company cannot guarantee the payment of mortgages." Who was down there to oppose me? They came from New York—the New York

Title & Mortgage Co., and their emissaries. They said, "No, sir." I had to compromise with them to get the bill through the legislature, and I put a provision in there that they could not guarantee the payment of Texas mortgages. That kept my companies safe. They are just where I told them they would be, and my title company is not, because I did not guarantee the payment of mortgages.

If the United States Government goes into guaranteeing the payment of mortgages, secured mortgages, as they call them in this bill, some day or other, in the next depression, if one ever comes—which I hope it will not—we will all go "blooie."

With regard to the question Mr. Russell had up here, I will say this to you gentlemen, that investigation—and I have made one, the best I know how—convinces me that more than one third of the assets of a good, well-run building and loan association in this country is either in real estate or in mortgage notes that are so far delinquent that they are going to be real estate unless conditions get better. You cannot sell real estate at any sort of price. It just will not go into money. Therefore I do not believe 1 percent will do any good. I have an association and had $10,000,000 in it. For 5 years I did not draw a salary as president of the institution, and I did not get any lawyer's fees out of it either, but I wanted to help. I wanted to get something going. We had run for about 10 years and accumulated a reserve of half a million dollars. It was the last one of the large associations in my section to refuse to pay withdrawals. I did not have an application for withdrawal on hand, but I looked over the country, and I talked to men in the business, and I concluded the time had come to shut down, and I just closed down like a clam and told everyboy, "I will take in no money, and I will pay out no money." I am paying 4 percent dividend on my stock, but I had half a million dollars accumulated. Could I have met withdrawals when I once announced I had finished? No. I would have had $3,000,000 of applications in there. Those people, as a rule, who were withdrawing from building and loan associations did not do it from fright. They did it from necessity. They had their money in these building and loan associations, and the collapse of all the other financial institutions threw a load on these building and loan associations that they could not keep up with.

Gentlemen, that is my story, and I will leave this statement with the secretary.

Senator BULKLEY. Did you mean to leave the impression that you do not believe in title I of this bill?

Senator WAGNER (presiding). How much longer will it take you, Mr. Stewart?

Mr. STEWART. I will leave this statement with the secretary and it can be printed. I am through.

Senator BULKLEY. I would like to have Mr. Stewart comment on title I.

Mr. STEWART. Title I, in my judgment, means this: They will sell frigidaires and everything, and the Government guarantees payment. There is no lien or anything. You will lose your money. But this plan I have worked out here, to lend money to replace insanitary houses with sanitary houses, will solve this problem and put people to work.

I will just leave this statement with the secretary.

Senator WAGNER (presiding). Thank you very much.

Mr. STEWART. I am all through, Senator. I have nothing more to say.

PREPARED STATEMENT OF MACO STEWART, GALVESTON, TEX.

Under the provisions of section 2 the directors, 5 to 7 persons, to be selected by the President, can come only from some existing Federal board or executive department. This means that the directors of the Home Credit Insurance Corporation will forever be selected from some other Federal organization, and in consequence the existing regime would continue in perpetuity.

Section 3 provides for insurance on terms fixed by the board for the insurance of all financial institutions which apply for credit insurance, such insurance to protect against losses sustained on loans and credits for the alteration, repair, and improvement of homes, but in no event shall the credit so insured be in excess of $2,000. This means that the Government guarantees the payment for all frigidaires, steam plants, hot-water heaters, and similar installations, not only in homes but when installed in any building. It even goes so far as that it could be applied to the installation of an elevator if the unpaid balance therefor did not exceed $2,000. There is no provision for any lien to secure these alterations, repairs, and improvements; and it simply means that the Government guarantees the payment to any selling corporation, individual, or organization, of all its bad accounts arising from the sale of installations made in buildings, and alteration and repairs thereto, all of which is without any sort of security.

Under the provisions of section 4 the aforesaid insurance corporation is authorized to make loans to any kind of financial institution, such loans to be equal to the full face value of any obligation offered to the Home Credit Insurance Corporation. In other words, taking sections 3 and 4 together, it means that any supply house could proceed to make improvident sales of equipment and repair, without security, taking the note of the purchaser for the full purchase price, which could be rediscounted and sold to the Home Credit Insurance Corporation. There is nothing in either sections 3 or 4 to require a lien on the improved property to secure the debt.

By reason of the expression in section 3, "personal finance company", it is very doubtful whether the words on page 5, lines 8 and 9, would be given any effect, and would probably leave it entirely optional with the Home Credit Insurance Corporation to make loans to automobile finance institutions and similar concerns. Color is lent to this theory by the separate provisions in section 5 for the insuring of mortgages and loans on homes and housing projects; under the well-recognized rule that the specific provisions in a section similar to section 5, which is confined to real-estate mortgages, necessarily gives a different meaning to the provisions in sections 3 and 4 for loans to "personal finance companies."

Section 5 would authorize the board to fix a cost for insuring mortgages on homes and low-cost houses. The home mortgages are confined to 60 percent of the value of the property on which

houses are already built and 80 percent of the appraised value of the property on which new homes are constructed. This means that where a man owned a lot worth $1,000 he sould secure a loan of $4,000 to build a house thereon, as the value of the lot plus the new house would be $5,000.

The provisions for lending 60 percent against existing homes would merely mean the taking away from all existing financial institutions all their good mortgages that were secured by a margin of as much as 40 percent. A limit is placed of five times the capital stock of a corporation on loans on existing homes, but there is no limitation with respect to new construction.

Section 6 of the act authorizes the corporation to issue an unlimited amount of its obligations to make the loans and advances under section 4 and section 5. These obligations shall be guaranteed as to principal and interest by the United States and are exempt from all taxation.

Taken as a whole, the effect of the creation of the insurance corporation is to put the Government directly into the lending business, not only for the repair of homes, but for the installation of frigidaires, water heaters, and other equipment, and as to which there would be no lien whatever. Furthermore, it puts the Government directly into the business of lending as much as 80 percent for the construction of new homes, and an unlimited percent for low-cost housing.

The practical application of this act would be to drive existing lending institutions out of business; and by reason of loans where there is no security, will mean untold losses to the Government.

TITLE II. NATIONAL MORTGAGE ASSOCIATIONS

These associations can lend on either improved or unimproved property, can buy and sell mortgage notes, can issue bonds or debentures, and may do business throughout the United States and in every State, and the stock of such corporations may be divided into classes. The limitation is that the corporation must have a capital to start with of not less than $5,000,000. This makes the entire plan of no value outside of the large money centers, as it would be impossible to raise $5,000,000 in more than five States of the Union in which to start such a corporation. Such national association has an unlimited power of borrowing money and issuing its debentures. It can sell its stock by mail and otherwise all over the United States. It could have a class of stock that would pay the investors one rate of interest, and another class of stock that would be held by the insiders that would take all of the profit. The stock must be paid for either in cash or Government securities. Any of the frozen mortgage companies in the East could incorporate a national association and place therein $5,000,000 and simultaneously spend the $5,000,000 for the purchase of mortgages now held by these frozen institutions, and thereby its capital would thereafter consist of these existing mortgages; and thereupon the corporation could proceed to divide its stock into two classes, as hereinbefore suggested, the insiders holding what might be termed the "common stock" in small amount, and the preferred stock peddled to the public throughout the United States.

Being thus incorporated and having peddled its stock to the public, this national association could proceed to sell such bonds and debentures as might be approved by the Federal Home Loan Bank Board. That there is a possibility of one of these national organizations taking all of the existing mortgages of these frozen mortgage companies is apparent from the provision in section 209, page 16, providing that such national association may manage properties purchased or turned over to it as the result of foreclosure. This simply means that one of these national mortgage associations can then proceed to do the work that is now being done by such an organization as the National Realty Management Co., having headquarters in New York, and now servicing mortgages and foreclosed properties throughout every State in the Union, acting as a servicing agency for many insolvent mortgage-loan companies.

The Federal Home Loan Bank Board is given power to examine these national mortgage associations, but other than that such national mortgage associations are free from all control, and such associations and everything connected therewith "and their loans and income" is exempt from income and other taxation, and the shares of such association are exempt from taxation.

Under the provisions of section 213, page 18, such national mortgage association could always go into the Federal court in any litigation that it might have, except where the litigation related to property in the same State in which its principal office was located. Such national associations are authorized to act as agents or any other instrumentality of the Government when requested by the latter. This means that if one of these national mortgage companies, free from all Federal control of every kind, can sell its stock and debentures, can deal in mortgage notes, can lend money, and do all of the things that were attempted and were done by the national organizations of like character that swarmed over the country in the early nineties, every one of which went broke, and the investors in which lost practically all of their money.

Page 19, line 6, provides that section 5243, Revised Statutes, does not apply to these national mortgage associations.

This provision for national mortgage associations opens the door to all manner of fraud and to a repetition of the scandals that arose from the operation of similar concerns some 40 years ago.

There is no provision that the issues of these national mortgage associations shall be guaranteed or insured in any way. Under the provisions of section 203, subsection 3, the charter of one of these national mortgage associations may contain "any provisions which the incorporators may choose to insert * * * regulating the powers of the association * * * the stockholders, or any class of stockholders." Under this provision one of these national associations could put its agents at every crossroad selling installment stock and doing the same business that is now done by certain widely advertised organizations, and there is no restriction whatever as to the amount of membership fee or how much of the investment of the installment shareholder would be forfeited to the association upon his default in payment of any installment. At a hearing before a committee of the Texas Legislature it was proven that 80 percent of the investors in installment stock of this type failed to keep up their

payments, with the result that many of the investors lost 100 percent of what they paid in. There is nothing in the provisions of this act that would safeguard the public in this respect.

It will be noted that under the provisions of section 207, page 15, line 6, these associations may also issue "bonds or debentures." As the minimum amount of capital that one of these associations may have is $5,000,000, it is readily seen that by this section 207 it may issue as much as $75,000,000 in debentures. This opens the door to an amount of fraud that would be incalculable. It is true that section 207, page 15, line 13, provides that no association may issue "any bonds or debentures except subject to the regulations of, and with the approval of, the Federal Home Loan Bank Board." This does not prevent one of these national associations from peddling its stock, to be paid for in installments, with a provision of forfeiture of a substantial part or all of the amount paid in.

There is one organization in the United States that is selling its debentures throughout the country, and I am quite sure that an investigation of its books would disclose that 80 percent of its investors lost a very substantial part of their investment. This concern is still operating. Its contract is rather involved, the investor assumes, when he subscribes to this installment stock, that he will be able to keep up his payments, but experience shows that 80 percent of these investors fall by the wayside and forfeit to the corporation a very substantial part of the principal that had been paid in. If these organizations are to be permitted to exist, then there should be rigid provisions for their control and a clean-cut statement in the act that no part of the principal paid in by the investor shall be forfeited or lost, but that in the event of the failure of the investor to keep up his payments, that his principal at least should be returned to him within a reasonable time.

It is true that under the provisions of section 210, page 16, the Home Loan Bank Board can wind up one of these national mortgage associations when the latter conducts its business in an unsafe and unbusinesslike manner and further finds that "the value of its assets is less than one twentieth in excess of its outstanding liabilities." All of this taken together would simply mean that the Home Loan Bank Board can wind up one of these national mortgage associations when it has became insolvent, but it does not mean that the Board can stop the career of one of these national associations, though it is peddling its installment stock and skinning the public in the operation.

TITLE III. INSURANCE OF SAVINGS AND LOAN ASSOCIATION

Section 302, page 21, provides that there is hereby created the Federal Savings and Loan Insurance Corporation as an instrumentality of government. The management is vested in a board of trustees of five, being the members of the Home Loan Bank Board. The capital is $100,000,000, furnished by the H.O.L.C. This institution is in short referred to as the "Insurance Corporation." The Insurance Corporation is obligated under section 303 to pay any "insured member" 10 percent in cash, one half of the remainder in 1 year and the balance in 3 years after default. Insured members

may be any holder of withdrawable or repurchasable shares of investment certificates. No account can be insured for more than $2,500. Section 304 provides that institutions eligible to insure their accounts shall be confined to members of a Federal home-loan bank organized as: (1) Federal savings and loan associations; (2) building and loan associations, etc.

Apparently this Insurance Corporation is intended to assure the public that any investment up to $2,500 is good where the investment is made, either in a Federal savings and loan association, or a building and loan association, or similar institution.

Section 305 provides that eligible members of Federal home-loan banks may apply to the Insurance Corporation for insurance. Insurance shall be declined "if the capital of the applicant is impaired." This means that but few existing building and loan associations would be eligible for insurance, if the same yardstick be used by the Insurance Corporation as is used by the various State departments in appraising the value of foreclosed real estate. Nearly all building and loan associations are frozen. Practically all building and loan associations in this country have an average of one third of their capital invested in foreclosed real estate, the value of which is problematical.

In consequence, either the Government must write down the foreclosed real estate and place upon it a value that would show the association to be impaired, or it must accept the real estate at the value it is carried on the books of the association, and in which event, by guaranteeing the shareholders, the Government becomes a guarantor of the value of all this foreclosed real estate. An insurance premium of one half of 1 percent of all investments is provided for on page 26, to be paid on a semiannual basis, and to be kept up until it has a reserve of 5 percent.

Page 29, line 6, provides that no insured association shall "make loans beyond 50 miles from its principal office." It is not clear whether an institution that now has loans more than 50 miles from its principal office would be eligible for insurance.

Page 29, line 10, prevents the stating of any "definite return" on stock.

Page 29, line 13, provides that no dividend shall be paid without adequate reserve.

Page 31 provides that an insured institution shall be taken over by the insurance corporation, which would be in direct conflict with the provisions of State laws providing that defaulting associations shall be taken over by some State authority, usually the banking commissioner or insurance commissioner. This creates a direct conflict between the Insurance Corporation and the insurance and banking departments of the various States in which these corporations are created.

SUBSTITUTE PROPOSED BY MACO STEWART

SECTION 1. The sum of $500,000,000 is hereby appropriated and directed to be used by the Home Owners' Loan Corporation in the setting up of a loan corporation to make loans for the replacement of insanitary rent houses (occupied by not more than two families) with sanitary residences to be adapted to the use of not more than two families, and no such house to cost in excess of $4,000.

SEC. 2. The mortgage company so organized by the H.O.L.C. shall be styled "Housing Corporation Bank" with headquarters in Washington, which shall have the same officers as operate the H.O.L.C. from time to time. Such bank shall be authorized from time to time to purchase at face value the debentures to be issued by nonprofit housing corporations as hereinafter provided. In any city or community where sanitary code has been passed or shall hereafter be passed preventing a landlord from renting out and tenants from occupying insanitary houses as hereinafter defined, and where in such city or community there exists or shall be created a corporation to be operated without profit, for the purpose of making loans for the construction of sanitary houses to take the place of such insanitary houses; and such corporation issues its debentures in like amount and secured by the note of the owner of the real property upon which such house is erected, secured by a valid first lien on such sanitary houses as may be built to replace such insanitary house, but in no event to exceed $4,000 in value, the Housing Corporation Bank shall be and is hereby empowered to purchase debentures from time to time issued against such loans.

SEC. 3. By the term "insanitary house" is meant a rent house for residence purposes devoid of either screens, toilet, bath, electric lights, and running water. Each such corporation issuing such debentures shall have a board of directors composed of five members, two of whom are to be members of the city council or city commission or county commissioners court of the community in which same operates and three others, resident citizens thereof, and shall be styled "Nonprofit Housing Corporation of ———" (stating name of location).

SEC. 4. Where a rent house has been vacated and the landlord desires to replace such insanitary house with a sanitary house, the owner shall enter into a contract under the supervision of such Nonprofit Housing Corporation for the construction of the sanitary residence, and such owner shall thereupon execute his note for the cost of such improvements secured by valid first lien on the real property upon which said sanitary house is to be erected, and such note shall mature on or before 20 years and bear interest from date until paid at the rate of 4 per centum per annum, payable quarterly, the validity of the lien to be guaranteed by responsible title company as a first and prior lien to all others, such title insurance company to be under State supervision and organized in State in which the insured property is located, and to have a paid-up capital of not less than $500,000. The Nonprofit Housing Corporation so formed in such city or community shall then place the deed of trust or mortgage securing the loan properly of record and place the note secured thereby in a depository in such community or city authorized to receive moneys of the United States Government, and to be by it held as trustee for the security of the bonds and debentures to be issued by such Nonprofit Housing Corporation.

SEC. 5. Such Nonprofit Housing Corporation shall then issue its bonds in denominations of $100 bearing 3 percent interest and payable on or before 20 years in an amount equal to the notes secured by first mortgages and so placed with such depository trustee. Such Housing Corporation Bank from time to time shall pay said Nonprofit Housing Corporation an amount equal to such bonds by placing same in the local depository to be checked out from time to time as work progresses in the construction of such sanitary houses on the joint check of the Nonprofit Housing Corporation, the owner of the lot and the contractor doing the work.

SEC. 6. Any city or community wherein is formed such Nonprofit Housing Corporation shall be entitled to the benefits of this Act, provided it shall first pass the necessary sanitary code to prevent landlords renting out an insanitary place of residence and preventing tenants from occupying the same.

SEC. 7. The Housing Corporation Bank will allot its available funds to the various cities and communities in the different States of the Union in proportion to population, but the total loans in any one city shall not exceed $1,000,000.

Senator WAGNER. The committee will adjourn now until tomorrow morning at 10 o'clock.

(Whereupon, at 12:10 p.m., Thursday, May 17, 1934, an adjournment was taken until tomorrow, Friday, May 18, 1934, at 10 a.m.)

NATIONAL HOUSING ACT

FRIDAY, MAY 18, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on yesterday, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Wagner, Barkley, Bulkley, Costigan, Adams, Byrnes, Goldsborough, Townsend, Couzens, and Kean.

The CHAIRMAN. The committee will come to order, please. Mr. Harriman, will you please come forward and take a seat at the table, opposite the committee reporter.

Mr. HARRIMAN. Yes, sir.

The CHAIRMAN. State your name, place of residence, and business.

STATEMENT OF HENRY I. HARRIMAN, NEWTON, MASS., PRESIDENT OF THE UNITED STATES CHAMBER OF COMMERCE

Mr. HARRIMAN. My name is Henry I. Harriman. I reside at Newton, Mass. I am at present the president of the United States Chamber of Commerce but not actively engaged in business.

The CHAIRMAN. You know about the bill that is pending before the committee, I take it.

Mr. HARRIMAN. I do.

The CHAIRMAN. And you have had some occasion to look into the merits of it?

Mr. HARRIMAN. I have not looked into the details of the bill, but the broad principles underlying the bill I am thoroughly familiar with.

The CHAIRMAN. We will be very glad to hear your views about the bill.

Mr. HARRIMAN. Mr. Chairman and gentlemen of the committee: We are suffering in this country today primarily from lack of employment in the permanent or durable-goods industries and in construction. Normally we have about 5,000,000 men employed in durable goods and in construction. In addition there are a large number usually employed in the transportation of durable goods. How large the total number directly and indirectly connected with those industries is I do not know.

Now, the consumable-goods industries have come back pretty well. From the best evidence we have they are now running at about 90 percent of their capacity. On the other hand, the durable-goods

industries are running at very low capacity except as the Government has itself advanced money to keep them going. And there is very little private construction under way.

Of course, the Government went into the advancing of money for improvements with reluctance. But it felt it was necessary to do so in order to bridge the gap and keep men in the durable-goods industries employed until private industry could again take up the burden. If private industry does take up that burden, as the President anticipates, and if the Budget is balanced, as he anticipates, in 1935–36, then the burden, which we have assumed because of the depression can be paid off. If, however, we should have to keep this process up indefinitely of Government support in order to keep men employed, the situation will be very serious.

This measure now before you is, in my opinion—or perhaps I should say this group of measures—is one of the most important groups that has been presented for your consideration, because, basically, it is an attempt on the part of the Government to give the necessary encouragement to private capital to go into the construction of homes. And if we can do that, there will be a double gain. There will first be the direct gain of putting men to work, and there will, in the second place, be the social gain of putting men to work on homes, of giving the people better homes in which to live.

If I may digress for just a moment from the principles of the bill, I will say that I look upon the decentralization of industry, upon the remerging of industry and agriculture, as one of the great movements that is going to take place in the next 2 decades.

I believe that our manufacturing plants are going to drift to the outskirts of big cities or to the smaller towns, and that with the developments of modern science they can secure their power just as well in the outskirts of the big cities or in the small cities, and with the development of good roads and the development of automobiles, workmen can live 5 or 10 miles from their place of work and then have a garden and a home and have the assurance that comes from the ability to grow much of their own food and the advantage of wages that they will get in the factories.

Now, this bill aims in that general direction. Some people say there is no need of additional housing. The studies which have been made by the chamber of commerce indicate that there has been a tremendous lack of modernization; that for the last 5 years almost no repairs have been made, and that houses have run down; that they are very much in need of repair, renovation, and improvement.

In the second place, we find that for the country as a whole there is less than one room per capita. I think you will all admit that this is an extremely small housing accommodation. A room and a half per capita certainly would not be an excessive amount for just decent living, and to have that would mean the construction of from 50,000,000 to 75,000,000 additional rooms.

Of course, this cannot be done in a single year or in even 5 years. It is a 10-year program of properly housing the people. And in mentioning that number I have not included the vast number of poor, inadequate houses both in city and country, houses that are in need of improvement and of modern facilities. So that it seems to me this bill has a double value in that it will tend to put men

back to work and will also tend to improve social and economic conditions.

As to the details of the bill now before you, I do not care to discuss them. I am not familiar with all of them. But, as I have gone over the bill, it seems to me there are certain features which you will find need to be somewhat changed. But of that I am not sure, because I have not had the opportunity to study it with Mr. Fahey or Mr. Walker or others who have been so carefully studying this problem.

Senator WAGNER. Mr. Harriman, have you had a chance to read the survey made in the city of New York some little time ago?

Mr. HARRIMAN. Only from a rough synopsis of it.

Senator WAGNER. I do not mean so much on the side of the need of housing, although, of course, that was the purpose of the survey, but it shows that in the slum areas, where the people live in such a tragic way, and which are breeders of crime and disease and sickness, there is great need of improvement.

Mr. HARRIMAN. I thoroughly believe that our congested tenement districts are costing us a tremendous sum in direct dollars and cents to our city governments through requiring additional police protection, additional crime prevention or suppression, additional fire protection, and in the matter of health and schooling.

Senator WAGNER. You mean that while we may appear to be generous in making loans at very reasonable rates for the purpose of clearing these slums, in the end we are really exercising great economy?

Mr. HARRIMAN. I should say, Senator Wagner, that you have to strike a balance between what you lend and what you get, and there is a good deal on both the debit and the credit sides of the ledger.

The CHAIRMAN. You may proceed, Mr. Harriman.

Mr. HARRIMAN. Now, gentlemen of the committee, fundamentally I am heartily in favor of putting men to work building homes and clearing slums. I think that is infinitely better than building post offices and roads. In the second place, I am heartily in favor of the greatest possible use of private capital, because there is a limit to what the Government can borrow. And in the third place, the principle of amortization as set up for these mortgages is absolutely sound.

We are suffering very largely from debts that have been accumulated and that should have been largely paid off in the past. That is true of our mortgages; it is true of our railroads; it is true of our utilities; and for the first time we are setting up a principle that a debt is not a permanent load to be placed upon the home owner; that a proper part of his rental is a fee that will amortize that loan within a reasonable time. And on these three basic principles I very heartily commend these bills.

Senator COUZENS. Mr. Harriman, isn't it a fact that we are getting the cart before the horse? In attempting these measures, which I am in sympathy with, we are not planning, apparently, to give any security of income to the users of these homes.

Mr. HARRIMAN. Well, Senator Couzens, we are going to give a good deal of income to a great many people if we get the construction business going.

Senator COUZENS. I agree with you on that, but there is no assurance of any continuity of income to renters after we get these houses.

Mr. HARRIMAN. Senator Couzens, I have never known whether the chicken or the egg came first. And I believe that is just about what you are referring to.

Senator COUZENS. No. I am bringing up the point——

Mr. HARRIMAN (continuing). They are all so closely interrelated it is hard to say which should come first.

Senator COUZENS. I know which will come first in this matter, whether I know about the chicken or the egg coming first. I know that no one can contract to pay off any amortized mortgage, or any contract that must be based upon labor, when the laborer has to contend with working today and not tomorrow, or maybe working for 3 months and being laid off for 9 months, or perhaps working for 2 years and being load off 2 years. With such a situation there can be no assurance of an income. And that not only applies to the so-called "laboring man" but includes a lot of white-collared people.

Mr. HARRIMAN. And it goes higher still.

Senator COUZENS. Yes. And what is the use of constantly trying to put them further into debt when there is no assurance anywhere of stability of income or of even being able to break even?

Mr. HARRIMAN. Well, Senator Couzens, your program is not going to be made complete by any one measure. It is going to have to be made up of a great many types of measures. And we certainly have got to put men to work.

Senator COUZENS. I agree fully with that. No one here is more anxious than I to achieve that end. But when the men get to work I should like to have for them some assurance of an income, certainly if they are to assume obligations.

Mr. HARRIMAN. I might say that if you can amend the bill to do that you will be a very wise man.

Senator COUZENS. Will you tell us how we may do that?

Mr. HARRIMAN. Well, we must make a start somewhere.

Senator WAGNER. One of the things that I think ought to be done toward this objective of security of income and economic stability is a system of unemployment insurance.

Mr. HARRIMAN. I am thoroughly in sympathy with the setting up of stable reserves for that purpose. Personally, I think they should be set up under the codes as a start.

Senator WAGNER. But the codes will be finished by the end of June of next year, and that is rather an uncertain thing to depend upon.

Mr. HARRIMAN. Then we will have a lot of unemployment, and there is a lot of trouble ahead.

Senator WAGNER. Yes; I agree with you; and think we ought at least to look ahead and provide for the situation.

Senator COUZENS. Then, Senator Wagner, you admit that there are some bad things, do you?

Senator WAGNER. Well, experience always shows that there are some things we can discard. The matter of the administration of the law might have been improved upon, I will say that. You do not think it ought to be done by the State itself?

Mr. HARRIMAN. Well, now, as to this business——

Senator WAGNER (interposing). Well, I better not get into a discussion of that. That is another subject. But it is coming, I am sure of it.

Mr. HARRIMAN. I thoroughly agree with you that unemployment insurance is coming.

Senator WAGNER. It has got to come.

Mr. HARRIMAN. Yes. sir.

The CHAIRMAN. Is it employment insurance or unemployment insurance?

Senator WAGNER. I favor employment insurance, but do not think the country is yet ready for employment insurance, and therefore we have to take whatever we think we can get.

Mr. HARRIMAN. I think there is a chance to go to that under the codes the same as we eliminated child labor.

Senator WAGNER. I think unemployment insurance like workmen's compensation is and must be a Government obligation. You cannot bring that about except under Government supervision.

Mr. HARRIMAN. There is supervision of the codes, Senator Wagner.

Senator WAGNER. I know.

The CHAIRMAN. Mr. Harriman, do you think there is ample private capital available for these purposes?

Mr. HARRIMAN. I certainly do think so. If you can once get confidence started there is ample capital. Just look at the reserves in the banks. The trouble is that people have been afraid to put money out.

The CHAIRMAN. How do you think we could induce that capital to come out?

Mr. HARRIMAN. I think it can be done because you introduce the principle of insurance in here, mutual insurance, which has proved beneficial in a great many cases.

The CHAIRMAN. In what way does the lender get the benefit of that insurance?

Mr. HARRIMAN. The lender gets the benefit of it in that he is insured up to 20 percent of the loan he makes for repairs. And I cannot conceive that on proper administration the consumer credit loan would be anything like 20 percent. And for new homes he has the assurance or I will say insurance of 80 percent, of securing the mortgage up to 80 percent. Now, there may be a question as to whether 80 percent is too high or not. I do not attempt to pass upon that. People who have worked this matter up say it is not too high. It looks to the outsider as though that was a little bit high.

The CHAIRMAN. Somebody has to pay that insurance, and who is it?

Mr. HARRIMAN. It is ultimately paid by the borrower, just as life insurance is paid by those who insure. It is a part of the premium charge.

The CHAIRMAN. Well, now, that brings us to the point about what it is going to cost the borrower. That has to be added to his interest, the cost of that insurance, and will he be induced thereby to put out his money. Or, I mean, will the man be induced to borrow the money. There are many people who need money all right, but they are not disposed to go into debt, and are not disposed to borrow,

and who would not borrow if the money were available to them. And certainly you cannot force a man to borrow.

Mr. HARRIMAN. Well, I think it depends upon two factors, upon what the ultimate cost of the proper type of home will be as compared to what they can get today and what they are paying by way of rental. I believe that American ingenuity in the matter of construction of houses has lagged far behind the ingenuity shown in a great many other lines. But today many concerns are studying this problem of less expensive home construction. We now build with brick of the same size that was used 5,000 years ago. Many concerns are considering, not mass production of houses, not the production of houses just alike, but the mass production of the units that go into houses, units we will say that will be 8 feet high and 3 or 4 feet wide, that will come from the factory with the door and window already set, and which will enable the construction of various types of houses at a great deal less cost because of greater unanimity.

Senator COUZENS. What are those units to be made of?

Mr. HARRIMAN. Well, the Weyerhaeuser people and the Curtis people are studying units of wood. The Johns-Manville people and the American Radiator Co. are studying units made of synthetic materials with casement windows. There are others, like the American Rolling Mill Co., that are studying steel units. There will not be any one thing provided, just as we now have wood houses and brick houses and concrete houses today. All that I say here on this point is that I think American ingenuity can devise a unit, or many types of units, that will be much larger and much more compact, much more usable than the present units, and that many people are now working along that line.

Senator BARKLEY. That is to be after the order of the Aladdin house that Sears, Roebuck & Co. sold, is it?

Mr. HARRIMAN. Not at all. But there is no reason in my opinion why a frame unit 4 feet by 8 feet cannot be constructed in the factory. And there would doubtless be various kinds of units, and some would have windows of certain types set in them. Some would have a door set in them. They would come ready for assembling.

Senator BARKLEY. And does it contemplate the adding of brick?

Mr. HARRIMAN. No; these units would not be of brick. They might be faced with brick afterward. But these units could be provided and they could be faced with brick or stucco or concrete, or just be made of wood.

Senator BARKLEY. The framework is what you are now speaking of?

Mr. HARRIMAN. I am speaking more particularly of the framework, and the doors and windows and other details being provided ready to be put together. Suppose every engine that goes into an automobile was made on a different principle, and of a different design, as in the case of a house now, why, we wouldn't have had automobiles of the present high efficiency.

Senator BARKLEY. No. But you wouldn't standardize houses like you do automobiles, would you?

Mr. HARRIMAN. No. But I just as leave standardize certain units that go into houses.

Senator TOWNSEND. By that process, wouldn't you be reducing the amount of labor that would be required to build a house with the units furnished?

Mr. HARRIMAN. Possibly; but you will build a great many more houses and use a great many more units, just as was the case when there came mass production of automobiles. You ran the production of automobiles from a few hundred thousand to the millions. You will be making possible proper housing for the whole American people.

The CHAIRMAN. You may proceed with your statement on the bill.

Mr. HARRIMAN. Now, I know it is contemplated that if this bill should be enacted there will be a study by some board of all these problems of construction that I am speaking of. Rome was not built in a day, and these problems will not be worked out in a day. But it is necessary that they should be worked out and it is perfectly feasible in my opinion for it to be done.

Senator WAGNER. I can see there the problem of technocracy, and that your local worker might be out of work. But he has to go to a factory somewhere.

Mr. HARRIMAN. Yes. On the other hand——

Senator WAGNER (continuing). I am speaking of the transition period. Undoubtedly it will be a contribution to employment.

Mr. HARRIMAN. During the first three decades of this century there was the greatest advance in the technical arts we have seen in our history, and yet in those same three decades the percentage of people employed rose very materially, and wages rose, and I do not believe that technocracy means loss of employment.

Senator WAGNER. No, perhaps not, but there is the transition period which presents the immediate problem we have to solve, although I feel it will finally benefit the Nation.

Mr. HARRIMAN. Yes.

The CHAIRMAN. There is the problem of whether the man who proposes to build a house, a modest home, is benefiting more by doing that borrowing and building his own home than he is by renting property owned by somebody else. Rents in many places are low and taxes are quite high.

Mr. HARRIMAN. I believe it is perfectly feasible to build a 5-room house for $3,000. A great deal lower figure has been set, but let us take that figure. And $500 more for land makes a total of $3,500. Now, let us assume that you have an interest rate of 5 percent, that you have 3 percent added for amortization, and that you have 1 percent for mutual insurance, and that your taxes and other charges bring it up to a total of 12 percent. Then you have $420 rent, and if you divide that by 12 you have $35 per month for a 5-room house. There are many workmen who are paying far more than that for 2 rooms or 3 rooms in crowded tenements.

Senator COUZENS. Is 3 percent enough for amortization?

Mr. HARRIMAN. With 3 percent for amortization, or at 5 percent compounded, you would pay it off in about 20 years. I think that is a fair amount. Figures have been worked out by Mr. Riefler which would indicate that counting the comeback on the insurance,

the amortization period would be between 17 and 20 years, depending upon the amount of loss.

Senator BARKLEY. Mr. Harriman, I am sorry but I did not get to hear your preliminary statement. Does your idea contemplate the ultimate destruction of houses that are below a certain standard, and the reconstruction of houses in their places, somewhat after the fashion mentioned by the gentleman who was here on yesterday, Mr. Stewart, of Texas?

Mr. HARRIMAN. I think we have got to move along the line a step at a time. I believe that the social loss involved, and the many losses that are coming by way of increased cost of crime, and the expense of schools and health arising from the crowded condition of the tenements in our big cities, has a direct bearing on this matter, and that we have got to gradually work out of this condition. The problem is to secure a loan at a fair price.

Now, in all our big cities there are probably thousands of tenements that ought to be condemned by the city and torn down, as unfit for human habitation, or else be put in good repair. To that extent, yes. But, as I stated earlier, I believe we are going to see a very marked movement from the center of the city to the outskirts, and from the bigger city to the smaller city or town. I think that is going to give the assurance that comes from the man who can have a garden and live 5 miles from the factory and receive his wages. I think it is going to be a combined process. I do not think for any of these problems there is any one panacea. But this is moving in the right direction, as I see it.

Senator BARKLEY. And all of it shows that if a century or half a century ago somebody had had a little foresight and done a little social and economic planning we would today be a whole lot better off.

Mr. HARRIMAN. You are right about that. But there is no reason why we shouldn't have it now.

Senator BARKLEY. I agree with you about that.

Senator WAGNER. It is often difficult to get now a thing which someone may clearly see is necessary to meet not only the present but the future. You are apt to be called a "red" when you start out on new lines of endeavor.

Mr. HARRIMAN. There are a few items in the bill that I—well, I do not say I oppose, but I should like to raise a question about.

The CHAIRMAN. We shall be glad to hear you on them.

Mr. HARRIMAN. I should like to be assured that the 80 percent loan on new construction is not excessive. I do not know. Of course, it would be very excessive if it were the old-fashioned mortgage. But if it is to come down 3 percent a year compounded, then that means that within a relatively small number of years you will have reduced the mortgage very materially. I think it might be well, if you are going to make a high rate like that, to make your amortization rate 4 percent for the first 5 years so as to bring it down quickly to a fair amount. But that is an administrative feature of the bill. Personally, I should rather see a limit of 75 percent than a limit of 80 percent, but I have no figures to base that suggestion on. I have just got the wonder.

Now, the second point is that I feel the board which has to administer this bill should at least have one or more members who are not

connected with other departments of the Government. Government officials are pretty busy. This is a pretty big job. I think there ought to be at least one or more members of this board who have no other job on their hands except to aid in the administration of the bill.

Senator BARKLEY. On that point, Mr. Harriman, we have the experience of the past that whenever we have created an ex-officio board worth its salt we have had ultimately to unex-officio it and make it a board so set up as to make it actively workable.

Mr. HARRIMAN. Then you rather agree with that criticism, I take it?

Senator BARKLEY. Yes; I do. I have raised the point already that any ex-officio board taken from other departments, who are overworked now, although competent to do the work, cannot do it otherwise than to turn it over in large measure to an executive secretary who thereby becomes the board. That has been the experience of the past. I rather lean, myself, to the idea that this job is big enough for a board to attend to that has nothing else to do. I realize the objections to new commissions and boards, and I share those objections; but if it is something that needs to be done and it is big enough to demand the attention of the Government to the extent we believe is covered in this bill, it seems to me that somebody ought to concentrate his attention on it and not have to divide his attentions with many other duties.

Mr. HARRIMAN. The third point I have to raise a question about is, under the Home Credit Insurance Corporation there is, first, a provision for the insuring of repair loans between $200 and $2,000 up to 20 percent of the loan, which I think is sound. Then there is a provision for advances of 100 percent on such loans. And there it seems to me you are a good deal more questionable. I believe with your insurance you do not need to make those advances. Now, on this——

Senator BARKLEY (interposing). A little further on this board business: We have at this time a very competent and able board managing the Home Owners' Loan Corporation and the home-loan banks, and they are more closely associated with it so far as homes are concerned than anybody else in the Government. I would be perfectly willing, so far as I am concerned, to leave the administration of this act to that board. But I realize it contemplates other things than homes and therefore it may be necessary to bring in some other coordinating agency. But to pick out a board of 5 members, 1 from each of 5 departments, always has seemed to me to be cumbersome.

Mr. HARRIMAN. Well, under the bill the President could appoint representatives all from one board if he wanted to.

The CHAIRMAN. Is there any other point that you wish to bring up, Mr. Harriman?

Mr. HARRIMAN. I was raising the question as to whether it was necessary and desirable to have a provision for loans by this same corporation on the policies which they insure for repairs. I have doubt about it. I think there is plenty of available money without the necessity of indirectly putting the Government into it in that way. Now, very likely that provision would not be used. It may be needed as a reserve power. The bill is obviously a bill to provide capital to put men to work, and I dislike to see a tendency or a pos-

sibility that it may throw it back. If it is necessary that could be added at another year. I think as to the national mortgage associations—and the bill is sound—there are undoubtedly sections of the country in which there is a lack of money while there is a surplus of money in other sections. This would make it possible to raise money in one section and lend it more broadly.

The CHAIRMAN. Mr. Harriman, would you be in favor of enlarging the scope of the national mortgage associations so as to take in business property, plants, and all that sore of thing?

Mr. HARRIMAN. I do not know, Senator Fletcher. I would not want to attempt to answer that question. I haven't studied the details of the bill enough. I am just touching a few high spots.

The CHAIRMAN. All right. You may proceed.

Mr. HARRIMAN. I certainly think also that the Federal Savings and Loan Insurance Corporation feature is sound, sound for a number of reasons. If it is sound to insure bank deposits to $2,500 I think it is sound to insure building and loan association deposits. Theoretically I do not like insurance of bank deposits, but it was probably necessary at the time. And therefore it seems to me the same principle can be extended. But this means that building and loan associations, some of which are sound and some of which are not, are going to come under careful scrutiny and review before they can have their accounts insured. There have been instances, I do not know how many, where building and loan associations have been almost commercial banks without supervision. They have taken demand deposits and paid them out. And I assume that this would mean a very thorough overhauling of the building and loan association business. Essentially it is a thoroughly sound business, but probably defects have arisen there as they did in our other forms of banking. So it seems to me in the broad principles that is very sound.

Now, as I say, I have doubt about the 80 percent provision. I have doubt about the loaning of Government money on the insured mortgages for repairs. I do not express that as more than a doubt.

Senator BARKLEY. What was the first proposition that you doubted?

Mr. HARRISON. I have doubt as to the soundness of an 80 percent loan. But that may be all right. I don't know. I think the committee should consider it very carefully. It would not be sound if it were not for the amortization feature. And if it is to be put in the bill I think there ought to be a compulsory provision for amortization, at least 3 percent, and higher if the board thinks necessary. Now, of course, it should be noted that 80 percent is the limit, that you do not have to loan up to that amount, and that the administrative board could say: We will not loan over 70 percent or 75 percent. But you have a broad bill here, and economically it is sound as I see it, because it aids social conditions and puts men to work in the most needed line we have.

The CHAIRMAN. Are there any further questions by the members of the committee?

Senator BARKLEY. Mr. Harriman, I am interested in getting your viewpoint as to the rapidity and the extent of the unfreezing of private capital, which is now frozen, by this agency we are setting up.

Mr. HARRIMAN. I am glad that you raised that point. The question can very properly be raised, if you enact this bill, how much of the billion dollars for repairs will be availed of—how much people will borrow. There has got to be a big campaign of publicity if it is to be put through. The responsible agency has got to be very active in that direction. And I think they should be permitted to allow the expense, to banks for instance, to write to their clients that they will be glad to consider such loans. If you can once get the thing started it will go far beyond the lending they will do. For instance, if Mrs. Smith improves her house by getting a loan, Mrs. Jones next door probably will repair her house without getting a loan, for probably she can do it if she will. It is the general experience with these measures when properly operated, that in putting men to work on improvements it goes far beyond the mere limits of the loans.

Senator COUZENS. I understood Mr. Walker to say here on yesterday that he did not contemplate any high-pressure salesmanship in this matter.

Mr. HARRIMAN. Well, I do not know what the term "high pressure" means. But I think this matter has got to properly be brought to the attention of the people. Now, in the Philadelphia campaign, and I am not familiar with the details of it, but there was a very active campaign conducted for improvements in Philadelphia. Ward committees were established, and people went out and visited the citizens and brought to their attention the advantages of it. I am told that it was reasonably successful. But if you just sit still and do nothing, if you just enact the bill and then have no campaign conducted to bring it to the attention of the people, it will fall flat, in my judgment.

Senator BARKLEY. I think it will be necessary to bring to the attention of the people the availability of this service.

Mr. HARRIMAN. Yes. You haven't got to urge them.

Senator BARKLEY. You have got to show them its feasibility. Whether it would be wise to go out and conduct what is called a "ballyhoo" campaign to induce people to go into debt is a question.

Mr. HARRIMAN. That would be a matter of discretion and judgment.

Senator BARKLEY. Yes; upon the part of those who will administer the act.

Mr. HARRIMAN. Yes.

Senator BARKLEY. The burnt-child illustration is not unapropos. Everybody has been burnt, not only on their fingers but all over, during this last depression.

Mr. HARRIMAN. Even Senators?

Senator BARKLEY. Yes, indeed; even Senators.

Senator TOWNSEND. Mr. Harriman, will there not be an effort on the part of contractors to go out and say to people: "Here is a plan by which you can get the money to repair your house, and I will make you a proposition now as to what it can be done for."

Mr. HARRIMAN. Yes.

Senator TOWNSEND. And they will be soliciting everybody to improve their houses.

Mr. HARRIMAN. Yes. On the other hand, the banks will be looking at the goodness of the credit.

Senator BARKLEY. Of course, this period of caution that has come over all of us not only applies to the Government but——

Mr. HARRIMAN (interposing). To all but the Government.

Senator BARKLEY (continuing). But applies to the borrower.

Mr. HARRIMAN. Yes.

Senator BARKLEY. And undoubtedly some means has to be found by which you can remove a little of that caution and fear from the people or they will never spend any money. They will not take a chance on the future unless they are to be relieved a little of this borrowing fear that hangs over everybody. With more money in the banks than we have ever had before, nobody can get any of it out to speak of because conditions have been such that people fear debts.

Mr. HARRIMAN. One of the best ways to relieve fear is to give an inducement to private capital to get into the field without Government borrowing.

Senator BARKLEY. I agree with you.

Senator ADAMS. A part of the trouble we have gotten into is due to the fact that for a number of years we spent more than our income. In other words, we have overspent and have payments to make that brought us behind. If we are going to work out it will be through an accumulation of savings. That is, we will have to spend less than our income. Haven't we got to exercise caution to prevent people from repeating that experience?

Mr. HARRIMAN. I think the history of consumer credit is one of the most satisfactory histories we have. The losses have been extremely small in the matter of consumer credit. Now, undoubtedly people have been induced to borrow where they ought not to have borrowed.

Senator ADAMS. What do you include in the term "consumer credit"?

Senator TOWNSEND. Yes; I want to know that.

Mr. HARRIMAN. I mean the purchase of an automobile and——

Senator ADAMS (interposing). That has all been secured by mortgage.

Mr. HARRIMAN. Yes; that is true. But a car is not worth very much when it is taken back. And the number of cars that have been taken back is extremely small, even in the depression years.

Senator TOWNSEND. Have you had that experience in connection with consumer credit in the matter other than automobiles?

Senator ADAMS. Take the furniture business, and there have been tremendous losses from that line.

Mr. HARRIMAN. Yes; you have had some losses there.

Mr. FAHEY. Yes; the impositions there were tremendous. There isn't anything any more scandalous in all our history in connection with consumer credit than along that line.

Mr. HARRIMAN. This thing that differentiates home buying from the past is the amortization feature, the fact that the mortgage is not to remain indefinitely.

Senator BARKLEY. There is this very wide difference between the automobile and homes, the automobile will wear out in 3 or 4 years and the home will last a lifetime. And there is quite a difference in the social and economic value of a permanent improvement.

Mr. HARRIMAN. Yes. On the other hand, the consumer credit for the automobile is usually limited to a year and a half.

Senator BARKLEY. Yes; that is true.

Mr. HARRIMAN. And a man can foresee a year and a half better than he can 5 or 20 years.

Senator BARKLEY. My argument is that it is even better to encourage people to make investments in the upkeep of their property and in the improvement of their property, which is to be passed on from one generation to another.

Mr. HARRIMAN. Yes. But you have to have with it this very careful planning or supervision to see that the house is built in the right place, that it is of the right type, and that the man building is a man who under reasonable circumstances can be expected to pay the amount of rent at 12 percent on the cost.

Senator BARKLEY. I agree with you there. But you can rely on these local agencies to exercise supervision.

Mr. HARRIMAN. The banks have been reasonably cautious for the last year or two.

Senator BARKLEY. That would not have to be done from Washington. I mean as to where the house is to be located, or as to its type, that is largely a matter between the borrower and the lender.

Mr. HARRIMAN. I think, also, that care must be taken not to make the interest rate so low that it will discourage independent outside lending. I think that should be emphasized, that the rate here is from 5 to 6 percent, and it has not got to be 5 percent. That is left to the discretion of the Board.

The CHAIRMAN. Any further questions by members of the committee? (A pause, without response.) We are very much obliged to you, Mr. Harriman.

Mr. HARRIMAN. And I thank you gentlemen for hearing me.

The CHAIRMAN. We will now hear Mr. Watson, if he will come forward to the committee table and take a seat opposite the committee reporter. Please state your name, residence, and occupation.

STATEMENT OF FRANK WATSON, WASHINGTON, D.C., ATTORNEY WITH THE RECONSTRUCTION FINANCE CORPORATION

The CHAIRMAN. Mr. Watson, you are familiar with this bill and know about its provisions, I take it. Will you now tell us something about it?

Mr. WATSON. Mr. Chairman and gentlemen of the committee, I thought that perhaps we could most quickly clear up all the details with reference to the mortgage-insurance plan and other details in the bill, if we were to get down to a rather minute examination of the precise language. And in that connection I should like to say that when the mortgage-insurance scheme was first drawn up it was written into the statute in great detail, explaining everything. And then it seemed desirable to shorten it as much as possible, both for reasons of flexibility and reasons of convenience; and it was rewritten in its present form in section 5. I think we can understand the entire scheme better if we can go over in detail the old draft in which the matter was handled, and I should like to pass out copies for the use of the members of the committee.

The CHAIRMAN. All right. You may furnish those to us and then proceed in your own way.

(Mimeographed copies of the original draft of title II, Federal Mutual Mortgage Insurance Corporation, furnished to the committee, is as follows:)

TITLE II. FEDERAL MUTUAL MORTGAGE INSURANCE CORPORATION

SEC. 201. This title may be cited as the "Federal Mutual Mortgage Insurance Act."

DEFINITIONS

SEC. 202. As used in this title—

(a) The term "Corporation" means the Federal Mutual Mortgage Insurance Corporation created under section 203 of this Act.

(b) The term "home mortgage" means a valid first mortgage on real estate in fee simple or on a leasehold under a renewable lease for not less than ninety-nine years upon which there is located a dwelling for not more than two families, the land and the building being used principally for residential purposes; the term "first mortgage" includes such classes of first liens as are commonly given to secure advances on, or the unpaid purchase price of, real estate under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby; and the term "dwelling" means a structure located on contiguous real estate held under single ownership irrespective of whether such dwelling has a party wall or is otherwise physically connected with another dwelling or other dwellings on real estate not so held.

(c) The term "mortgage" includes approved successors and assigns of the original lender under a home mortgage and the term "mortgagor" includes successors and assigns of the original borrower.

CREATION OF FEDERAL MUTUAL MORTGAGE INSURANCE CORPORATION

SEC. 203. (a) There is hereby created a body corporate to be known as the "Federal Mutual Mortgage Insurance Corporation", which shall be an instrumentality of the United States, and which shall have authority to sue and to be sued in any court of competent jurisdiction, Federal or State. The Corporation shall be under the supervision of a board of directors which may prescribe bylaws, rules, and regulations for the accomplishment of the purposes and intent of this title.

(b) The management of the Corporation shall be vested in a board of directors, consisting of five persons, to be appointed by the President. Not more than three such persons shall be members of any one political party. Before entering upon his duties, each of the directors shall take an oath faithfully to discharge the duties of his office. The members of the original board of directors shall severally be appointed for terms of, and hold office for, two, three, four, five, and six years, and thereafter directors shall be appointed and hold office each for a term of six years and until a successor is appointed and takes office. Whenever a vacancy shall occur among the directors, the person appointed to fill such vacancy shall hold office for the unexpired portion of the term of the director whose place he is selected to fill. Directors shall receive salaries at a rate to be designated by the President of the United States, but not to exceed $10,000 per annum each. No director shall in any manner, directly or indirectly, participate in the deliberation upon the determination of any question affecting his personal interests or the interests of any corporation, partnership, or association in which he is directly or indirectly interested. Nothing contained in this or in any other Act shall be construed to prevent the appointment as a director of this Corporation of any officer or employee or director of any board, commission, corporation, independent establishment, or executive department of the United States.

(c) The Corporation shall be a mutual-insurance corporation for the purpose of insuring home mortgages as hereinafter provided.

(d) In order to provide funds out of which initial expenses of the Corporation may be paid, the Corporation shall have a capital stock of $10,000,000 to be subscribed for by the Secretary of the Treasury on behalf of the United

States. Payments on such subscription shall be subject to call, in whole or in part, at any time by the Corporation and shall be paid by the Secretary of the Treasury out of any funds in the Treasury not otherwise appropriated. Receipts for payment for or on account of such stock shall be deposited with the Treasurer of the United States and shall be evidence of the stock ownership of the United States. Such stock shall be entitled to dividends to be paid in the discretion of the Corporation out of the general reinsurance fund hereinafter described in section 207 of this title.

MORTGAGES ELIGIBLE FOR INSURANCE

SEC. 204. To be eligible for insurance by the Corporation a home mortgage shall—

(a) have or be held by a mortgagee approved by the Corporation as responsible and able to service the mortgage properly;

(b) be a valid and binding lien on the property of the nature and kind it purports to be;

(c) involve a principal obligation not in excess of a maximum to be set by the Corporation, such principal obligation to be limited to such a percentage of the appraised value of the property given as security therefor as shall be determined by the Corporation, such percentage, however, not to exceed 80 per centum in the case of new construction or 65 per centum in the case of existing homes;

(d) have a maturity satisfactory to the Corporation and not to exceed twenty years, except that the Corporation may, in its discretion, approve as eligible, mortgages having maturities of more than twenty years but not to exceed thirty years;

(e) contain complete amortization provisions satisfactory to the Corporation and requiring periodic payments by the mortgagor not in excess of his reasonable ability to pay, so that by full compliance with its terms all obligations arising under it shall be completely discharged at maturity;

(f) involve a principal obligation including, in addition to the amount actually advanced thereon, only such initial service charges and appraisal and other fees as the Corporation shall approve;

(g) bear interest at not to exceed 5 per centum per annum on the principal obligation at any time outstanding, except that the Corporation may, upon a finding that the mortgage market demands it, approve, as eligible, mortgages bearing interest at not to exceed 6 per centum per annum on the principal obligation at any time outstanding;

(h) provide for the application of the mortgagor's periodic payments, exclusive of the amount allocated to interest and exclusive of an amount equal to the premium charge of the Corporation for insurance as hereinafter provided, to amortization of the principal;

(i) contain terms and provisions with reference to insurance, repairs, alterations, payment of taxes, default reserves, foreclosure proceedings, anticipation of maturity, and additional and secondary liens, and other matters, as the Corporation in its discretion shall determine.

The Corporation is authorized and directed to promulgate, alter, repeal, and amend, from time to time, rules and regulations setting the standards of eligibility of mortgages in accordance with the provisions of this section.

INSURANCE OF MORTGAGES

SEC. 205. Home mortgages in good standing and approved by the Corporation as complying with the provisions of section 204 of this title may be offered to the Corporation for insurance by it within one year from the date of their execution. A premium charge to be set by the Corporation and to be not less than one half nor more than 1 per centum per annum of the original face value of the mortgage (to be determined in accordance with the risk involved), payable annually by the mortgagee, shall be made for such insurance, the payment of which shall be a joint and several obligation of both the mortgagor and the mortgagee and shall be secured by a lien on the property mortgaged. If the Corporation finds, upon presentation of a mortgage for insurance and tender of the intial premium charge, that such mortgage complies with the provisions of this title, is proper in all respects and its insurance will be beneficial to the mortgage market in general, such mortgage may, by endorsement or other appropriate indicia, be accepted for insurance

by the Corporation. Such mortgage shall thereupon be and become an insured mortgage under the terms of this title. Commitments may be made, however, for the insuring of such mortgages prior to the date of execution or disbursement thereon.

It shall be the duty of the Corporation to discourage socially undersirable building or purely speculative overbuilding and the Corporation shall have full power to refuse to insure mortgages where in the opinion of the Corporation such socially undesirable building or purely speculative overbuilding will result.

If at any time the mortgagor under an insured mortgage shall be in default, and the mortgagee shall have duly foreclosured and taken possession of the mortgaged property, the mortgagee, if the insurance is in good standing, shall be entitled to convey and deliver the property to the Corporation and assign to it all claims of the mortgagee against the mortgagor arising out of the mortgage transaction or the foreclosure proceedings, provided that with the consent of the Corporation, property and claims may be turned over without the necessity of prior foreclosure proceedings. Upon such conveyance and delivery and such assignment, the obligation of the mortgagee to pay the premium charge shall cease and all rights of the mortgagee or of the mortgagor to any benefits from such charges shall terminate. Thereupon the Corporation shall deliver to such mortgagee:

(1) A debenture or debentures of the Corporation having a total face value equal to the value of such mortgage on the date of delivery of the property mortgaged, such value of the mortgage to be determined by adding to the principal amount still due on the mortgage on the date of such delivery, payments made with the approval of the Corporation by the mortgagee for taxes and insurance, and by deducting from such total amount all charges which would be necessary under its terms to bring the mortgage up-to-date and in good standing on such date of delivery. Such debentures shall bear interest at a rate to be determined by the Corporation but not to exceed 3 per centum per annum, payable semiannually on the 1st day of January and the 1st day of July of each year, and shall have a maturity date three years from the 1st day of July following the maturity date of the mortgage in satisfaction of the insurance of which the debentures were delivered. Such debentures shall be subject to, and only subject to, such Federal, State, and local taxes as the mortgages in exchange for which they are given would be subject to in the hands of the holder of the debentures. Debentures issued in exchange for mortgages insured prior to January 1, 1940, shall be fully guaranteed as to principal and interest by the United States.

(2) A certificate of claim for a sum which the Corporation approves as being sufficient, when added to the face value of the debentures delivered to the mortgagee, to equal the amount which such mortgagee would have received had the mortgagor redeemed the property and paid off in full, at the time of delivery of the property to the Corporation, all obligations under the mortgage and arising out of the foreclosure proceedings. If the mortgagee has not foreclosed immediately on default but has, with the consent of the Corporation, allowed the mortgagor to remain in possession after default, then if later foreclosure was the result of continued default, the certificate of claim shall specify that such mortgagee is entitled to a preferred claim for that portion of the total claim which equals the difference between the face value of the debentures actually received by the mortgagee upon delivery of the property to the Corporation and the face value of the debentures which such mortgagee would have received had he foreclosed immediately on default and turned the property over to the Corporation at that time, the amount of such preferred claim to be subject to the approval of the Corporation and not to exceed 10 per centum of the face value of the mortgage. Such certificate of claim shall provide that an increment of 3 per centum per annum shall accrue to the original sum of the total claim stated thereon including therein the preferred claim. The rights of the mortgagee under such certificate of claim either for the amount (including increment) stated as a total claim or for the amount (including increment) stated as a preferred claim, shall be those and only those hereinafter set forth in section 206 of this title.

SEC. 206. The Corporation shall have full power to manage properties turned over to it in exchange for debentures and certificates of claim as hereinbefore provided. Such properties may be rented, renovated, modernized, sold for cash or credit, or otherwise dealt with to assure a maximum financial return to the Corporation. The Corporation shall also have full power to pursue to final

collection, by way of compromise or otherwise, all claims against mortgagors assigned by mortgagees to it as hereinbefore provided.

Should the net amount realized out of any particular property and out of the claims assigned along with such property, after deducting all expenses incurred by the Corporation in handling, dealing with, and disposing of such property and in collecting such claims, exceed the face amount of the debentures issued in exchange therefor plus the interest payable on such debentures, such excess shall be divided as follows: (1) If such excess is greater than the amount stated as a total claim in the certificate of claim issued upon receipt of the particular property and accompanying claims involved, then the Corporation shall pay over to the mortgagee holding such certificate of claim the amount of such total claim; any of such excess thereafter remaining shall be paid over to the mortgagor of the property involved. (2) If such excess is equal to or less than the amount stated as a total claim in such certificate of claim, but is equal to or greater than the amount stated as a preferred claim in such certificate of claim, then all of such excess shall be paid over to the mortgagee holding such certificate of claim. (3) If such excess is less than the amount stated as a preferred claim in such certificate of claim, or if no such excess is realized, then the Corporation shall pay to the mortgagee holding such certificate of claim such portion of the amount of such preferred claim as will give to the mortgagee holding such certificate of claim the same percentage of such preferred claim as the Corporation retains out of the amount realized to apply against the obligation of the debentures issued along with such certificate of claim. No mortgagee and no mortgagor shall have, and no certificate of claim shall be construed to give to any mortgagee or mortgagor, any right or interest in any property turned over to the Corporation or in any claim assigned to the Corporation; nor shall the Corporation owe any duty or duties to any mortgagee or mortgagor with respect to the handling or disposal of any such property or the collection of any such claim.

CREATION OF MUTUAL MORTGAGE FUNDS

SEC. 207. The Corporation shall conduct the business of mutual insurance generally as follows:

(a) The Corporation shall from time to time open upon its books such several insurance funds as it may deem necessary to enable the carrying in separate accounts of mortgages involving substantially similar risks. Such risks may be determined (1) by year of maturity of the mortgage, (2) by extent of the appraised value covered by the mortgage, (3) by characteristics of the property covered by the mortgage, (4) by geographical location of such property, (5) by a combination of any two or more of the foregoing, or (6) by any other factors which the Corporation may determine.

(b) Each mortgage accepted for insurance shall be assigned to the fund determined by the Corporation as including its class of risk characteristics. Premium charges received for the insurance of a particular mortgage shall be credited to the fund to which that mortgage is assigned. Interest and principal on debentures issued in satisfaction of mortgage insurance as provided in section 305 of this title shall be charged to the fund to which the particular mortgage involved is assigned. Payments made or to be made against preferred claims as provided in section 206 of this title shall be likewise charged. Expenses incurred in the handling of property and the collection of claims delivered and assigned to the Corporation under the provisions of section 305 of this title, and first receipts from such property and claims to satisfy such expenses and to offset the obligation of the debentures and preferred claims shall be charged and credited in like manner.

(c) The Corporation shall also open upon its books a general reinsurance fund which shall be available to pay charges against any of the several funds heretofore described which may be inadequate to pay charges against them. The surplus in such reinsurance fund deemed by the Corporation to be in excess of the amount necessary for the proper reinsurance of the several funds and in excess of the amount necessary to cover other expenses of the Corporation shall be paid into the Treasury of the United States as dividends on the stock of the Corporation held by the United States.

(d) General expenses of operation of the Corporation may be allocated in its discretion among the several funds or charged to the general reinsurance fund.

(e) Whenever the total amount in any particular fund shall equal 110 per centum but not exceed 110 per centum of the sum of (1) the remaining unpaid principal of the then outstanding mortgages assigned to such fund and (2) the outstanding liability of the debentures charged to such fund, issued to mortgagees who have foreclosed and turned over property to the Corporation in accordance with the provisions of section 305 of this title, the Corporation may terminate the fund (1) by paying to the mortgagees holding outstanding mortgages assigned to such fund a sum sufficient if such mortgages be in good standing to pay off such mortgages in full, such payment being for the benefit and account of the mortgagors, (2) by setting aside an amount sufficient to meet the payment of the debentures charged to such fund at maturity plus interest on them until maturity, and (3) by transferring the remainder to the general reinsurance fund hereinbefore provided.

(f) Whenever the total amount in any particular fund shall equal 115 per centum of the sum of (1) the remaining unpaid principal of the then outstanding mortgages assigned to such fund, and (2) the outstanding liability of the debentures charged to such fund, issued to mortgagees who have foreclosed and turned over property to the Corporation in accordance with the provisions of section 305 of this title, the Corporation shall terminate the fund (1) by paying to the mortgagees holding outstanding mortgages assigned to such fund a sum sufficient if such mortgages be in good standing to pay off such mortgages in full, such payment being for the benefit and account of the mortgagors, (2) by setting aside an amount sufficient to meet the payment of the debentures charged to such fund at maturity plus interest on them until maturity, and (3) by transferring the remainder to the general reinsurance fund hereinbefore provided.

(g) Should the amount in any particular fund fail to equal 115 per centum of the sum of (1) the remaining unpaid principal of the then outstanding mortgages assigned to such fund and (2) the outstanding liability of the debentures charged to such fund which have been issued to mortgagees who have foreclosed and turned over property to the Corporation in accordance with the provisions of section 305 of this title, and not be or have been terminated by the Corporation in accordance with subsection (e) of this section, until the final year prior to the maturity date of the mortgages assigned to such fund, the Corporation shall terminate the fund (1) by setting aside an amount sufficient to meet the payment of the debentures charged to such fund at maturity plus interest on them until maturity, (2) by transferring to the general reinsurance fund not less than 10 per centum nor more than 15 per centum, if available, of the amount to the credit of such fund and (3) by distributing the remainder, if any, proportionally to the mortgagees for the benefit and account of the mortgagors of the mortgages assigned to such fund.

(h) No mortgagor or mortgagee of any insured mortgage shall have any vested right in the credit balance in any particular fund and the determination of the Corporation as to the amount to be paid to any mortgagee for the benefit and account of any mortgagor shall be final and conclusive.

(i) In the event that the mortgagee forecloses and takes over the mortgaged property but does not turn it over to the Corporation in accordance with section 305 of this title, or in the event that the mortgagor may and does pay off the obligation under the mortgage in full prior to the maturity thereof, the obligation to pay the premium charge shall, upon due notice to the Corporation, cease and all obligations of the Corporation under section 305 of this title shall likewise terminate. Thereupon the mortgagee, in case of foreclosure, or the mortgagor in case of discharge of the mortgage by payment prior to maturity, shall be entitled to receive a fair share of the balance to the credit of the fund to which the particular mortgage involved has been assigned; the exact amount of such share to be finally determined by the Corporation according to calculations consistent with the principles of this title and designed to preserve the solvency of each particular fund and of the business of the Corporation in general.

SEC. 308. Moneys of the Corporation not otherwise employed shall be deposited in the Treasury of the United States. The Treasurer of the United States is hereby directed to pay interest on the amount so deposited at the rate of 3¼ per centum per annum payable semiannually and figured on the average amount outstanding during any such semiannual period. Interest so credited to the Corporation shall be allocated among the several funds described in section 307 of this title in proportion to the credit balances in such funds. The Corporation may, if it shall deem it advisable, purchase in

the market its own debentures under the provisions of section 305 of this title. Debentures so purchased shall be canceled and not reissued and the several funds to which such debentures have been charged shall be charged with the amounts used in making such purchases.

MISCELLANEOUS

SEC. 209. The Corporation shall, without regard to civil-service laws and without regard to the Classification Act of 1923, as amended, appoint such officers, employees, attorneys, appraisers, and agents as are necessary for the transaction of its business, fix their compensation, define their duties, require bonds of such of them as the Corporation may designate, and provide a system of organization to fix responsibility and promote efficiency. Any appointee of the Corporation may be removed in the discretion of the Corporation.

The Corporation shall be entitled to the free use of the United States mails in the same manner as executive departments of the Government.

SEC. 210. The Corporation shall cause to be made and shall publish from time to time such statistical surveys and legal and economic studies as it shall deem useful to guide the development of housing and the creation of a sound mortgage market in the United States. Expenses of studies and surveys and expenses of publication and distribution of the results of such studies and surveys shall be charged as a general expense of the Corporation.

SEC. 211. (a) The Corporation may also insure mortgages which are not home mortgages within the meaning of that term as defined in section 202 (b) of this title but which are first liens either (1) on property held by corporations formed wholly for the purpose of providing housing for families of low income, or for the reconstruction of slum areas, which are regulated by State or municipal law as to rents, charges, capital structure, rate of return, and areas and methods of operation, or (2) on property on which is located a low-cost multiple family or low-cost apartment type dwelling having an appraised value per available family accommodation not in excess of a maximum to be set by the Corporation.

(b) Such mortgages shall contain terms, conditions, and provisions satisfactory to the Corporation but need not conform to the standards set in section 304 of this title. Subject to the right of the Corporation to impose a premium charge in excess of, or less than, the amount specified for home mortgages, the provisions of sections 205, 206, and 207 of this title shall be applicable to mortgages insured under this section.

SEC. 212. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties, as depositary of public money and financial agent of the Government, as may be required of it. Obligations of the Corporation shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds, the investment or deposit of which are under the authority or control of the United States or any officer or officers thereof.

PENALTIES

SEC. 213. (a) Whoever makes any statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way any action of the Corporation under this title shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any certificate of claim, note, debenture, bond, or other obligation in imitation of or purporting to be a certificate of claim, or note, debenture, bond, or other obligation of the Corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited certificate of claim, or note, debenture, bond, or other obligation purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited; or (3) falsely alters any certificate of claim, or note, debenture, bond, or other obligation issued or purporting to have been issued by the Corporation; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely

altered or spurious certificate of claim, or note, debenture, bond, or other obligation issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise intrusted to it; or (2) with intent to defraud the Corporation, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiners of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or, without being duly authorized, draws any order or issues, puts forth, or assigns any certificate of claim, or note, debenture, bond, or other obligation, or draft, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

(d) No individual, association, partnership, or corporation, except the Corporation, shall hereafter use the words "Federal Mutual Mortgage Insurance Corporation" or any combination of these words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall hereafter use as a name under which he or it shall do business any combination of words, whether including these words or not, which would have the effect of leading the public in general to believe that there was a connection, actually not existing, between such individual, association, partnership, or corporation and the Federal Mutual Mortgage Insurance Corporation. Every individual, partnership, association, or corporation violating the provisions of this paragraph shall be guilty of a misdemeanor and shall be punished by a fine of not exceeding $1,000 or imprisonment not exceeding one year, or both.

SEPARABILITY AND AMENDATORY PROVISIONS

SEC. 214. The right to alter, amend, or repeal this title is hereby expressly reserved. If any clause, sentence, paragraph, or part of this title shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this title but shall be confined in its operations to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

The CHAIRMAN. Now, you may proceed in your own way, Mr. Watson.

Senator BARKLEY. Is this the original draft before it was consolidated into one section of the bill?

Mr. WATSON. This is the original draft of the mutual mortgage-insurance scheme. Some of this, of course, is irrelevant at the present time. I should just like to take up the parts that deal specifically with the type of the insurance.

The CHAIRMAN. Very well. You may do that.

Mr. WATSON. On the very first page of this mimeographed draft, section 202, we have definitions. The important thing in there is the description of a home mortgage. The term "home mortgage" means a valid first mortgage on real estate in fee simple or on a leasehold under a renewable lease for not less than 99 years upon which there is located a dwelling for not more than two families, the land and the building being used principally for residential purposes.

At that time the point with reference to owner-occupied houses had not yet been decided, as to whether the scheme should be confined strictly to owner-occupied premises or not. Of course, that is the question.

The definition is further extended to include row houses because of the difficulties that had been had previously in connection with that matter.

The next important phase of it comes in section 204, on the third page of this mimeographed draft. There is a description of the mortgage which we are insuring. And it is the fundamental basis of the instrument that gives to you security and which enables you to go forth with an insurance scheme of this sort on a sound basis. Here we have attempted to describe, with more or less flexibility, that mortgage instruments shall be held by a mortgagee who is capable of servicing that mortgage properly, because that is one of the elements that will show that your mortgage is continuing and all the relations are satisfactory.

Down in subsection (c) it provides that a home mortgage shall—

involve a principal obligation not in excess of a maximum to be set by the Corporation, such principal obligation to be limited to such a percentage of the appraised value of the property given as security therefor as shall be determined by the Corporation, such percentage however not to exceed 80 percent in the case of new construction or 65 percent in the case of existing homes.

I believe in the final bill that was written down to 60 percent.

Senator TOWNSEND. Do you think 80 percent not too high?

Mr. WATSON. Well, sir, I should like to explain the basis of the 80-percent figure. In the first place, it was not to exceed 80 percent.

Senator TOWNSEND. Yes.

Mr. WATSON. And the basis of that is that if you put the figure at too conservative a point you induce the second-mortgage market with its additional expense, you encourage that second-mortgage market to come back into operation. It is necessary that you go high enough so that a workman can properly finance his home without going into the second-mortgage market. You cannot ask him to put up too big a stake. Now, whether 20 percent is too big a stake or too small a stake I haven't the experience to state.

Senator TOWNSEND. What is your view about amortization on that basis?

Mr. WATSON. That is taken care of further down where it provides that the mortgage should not exceed 20 years. That will provide for 3-percent amortization, such as Mr. Harriman spoke of. That places a rigid minimum. There is also a provision with reference to maturity. In subsection (d) it provides that a home mortgage shall—

have a maturity satisfactory to the corporation and not to exceed 20 years, except that the corporation may, in its discretion, approve as eligible mortgages having maturities of more than 20 years but not to exceed 30 years.

Now, that is based upon the different types of construction throughout the country.

Senator TOWNSEND. That really makes it 30 years in the discretion of the commission.

Mr. WATSON. Well, yes; in certain areas of the country it is possible where construction is more permanent and will last longer, in the colder areas and in the older and more settled areas it is more likely that the homes are more costly. In the South and West, where heating requirements are more simple, the construction is

likely to be cheaper. It is necessary to have that flexible. If the committee should think it should be rigidly fixed at 20 years, all right.

Senator BYRNES. What is the use of saying 20 years if you say in the discretion of the commission it can be 30 years.

Mr. WATSON. Well, perhaps it should be written that the corporation may, in situations where it determines the property to be exceptionally suitable, provide that the full 30-year period may be used.

Senator BYRNES. What is the language in the bill? Do you know whether it is in the present bill?

Mr. WATSON. In section 5, but that is not stated in the new bill. That is left to the discretion of the board under the bill as printed.

Senator BYRNES. All right.

The CHAIRMAN. You may proceed with your statement.

Mr. WATSON. It is provided further that these must be amortized mortgages. I think that is an accepted principle, that the amortized mortgage is the only sound type of debt for the individual to incur. It is the only thing to compare with the commercial debt that pays itself out in a self-liquidating manner.

Senator TOWNSEND. It must be amortized, but under this provision it might be 20 or 30 years.

Mr. WATSON. Yes, sir. And whether that should be changed or not I have not had the experience to say.

Senator TOWNSEND. All right.

Mr. WATSON. In the amortization provision it says—

Periodic payments by the mortgagor not in excess of his reasonable ability to pay.

That consideration must permeate both our renovation financing and our mortgage financing. We cannot saddle people with debts which are beyond their ability to pay. For that reason the board must have that control, to adjust it to a certain proportion of a man's income.

Senator TOWNSEND. Here it says "not to exceed 5 percent per annum." On that basis what would it cost?

Mr. WATSON. On that basis it would cost a man to build a home 5 percent for interest.

Senator TOWNSEND. Yes. And what else?

Mr. WATSON. A maximum of 1 percent for insurance.

Senator TOWNSEND. That is 6 percent.

Mr. WATSON. And 3 percent for amortization.

Senator TOWNSEND. A total of 9 percent.

Mr. WATSON. And your cost is 9 percent.

Senator TOWNSEND. Then, at a cost of 9 percent, his home would be paid for in 20 years?

Mr. WATSON. A maximum of 20 years, and I believe a minimum of somewhere around 16 years, according to what the losses may be.

Senator BULKLEY. The borrower has to pay the taxes?

Mr. WATSON. Yes, sir.

Senator BARKLEY. He would have to do that if he did not borrow money.

Senator BULKLEY. Of course, but that has to be considered.

Senator TOWNSEND. I was making my comparison on whether he rented property or owned his property.

Senator BARKLEY. There is always room for argument whether it is better for a man to rent a place or to buy or build one. I think socially and economically, and from the standpoint of the interest a man has in his country, there are very few of us who would not like to own a little spot of the earth's surface—a spot that we can call our own.

Senator TOWNSEND. I agree with you fully, and we should encourage every person to own his own home.

Senator BARKLEY. But it may be more expensive to do it.

Mr. FAHEY. It has been, but it does not necessarily need to be.

Senator BARKLEY. That is true.

Mr. WATSON. If it is better to rent, at the same time it may be that the landlord has to absorb the loss, because someone has to own the home.

Senator BARKLEY. Of course.

Mr. WATSON. This has a provision of 5 percent for the normal rate and 6 percent in certain areas where higher interest rates prevail. It is a rather difficult thing to come into an 8-percent area or a 9-percent area and suddenly try to force an interest rate of 5 percent.

Senator TOWNSEND. There ought not to be any 8-percent or 9-percent areas now as cheap as money is.

Mr. WATSON. Well, I believe there are some.

Senator TOWNSEND. I do not think you ought to have a rate exceeding 5 percent.

Senator BYRNES. There are plenty of 8-percent areas now in the South, I believe.

Mr. WATSON. Now, here under subsection (h) it provides that a home mortgage shall—

> provide for the application of the mortgagor's periodic payments, exclusive of the amount allocated to interest and exclusive of an amount equal to the premium charge of the corporation for insurance as hereinafter provided, to amortization of the principal.

Now, there is one thing we passed further back in subsection (f), where control is placed in the corporation.

The CHAIRMAN. On what page is that of the bill?

Mr. WATSON. I am reading from this mimeographed draft.

The CHAIRMAN. All right. Proceed.

Mr. WATSON. That subsection provides that a home mortgage shall—

> involve a principal obligation including, in addition to the amount actually advanced thereon, only such initial service charges and appraisal and other fees as the corporation shall approve.

Now, that I believe has been one of the outstanding evils, especially of the second-mortgage market, the loading of the principal with charges of one type or another, which enables one to keep the face interest payment of approximately 5 percent when in fact the borrower is paying around 12 percent. It is necessary to keep that control of a fair interest rate if the matter of control is to mean anything.

Now, in subsection (i) it is provided that a home mortgage shall—

> contain terms and provisions with reference to insurance, repairs, alterations, payment of taxes, default reserves, foreclosure proceedings, anticipation

of maturity, and additional and secondary liens, and other matters, as the corporation in its discretion shall determine.

That, of course, has to do with the other terms and conditions in the mortgage which, if not controlled, may deprive one of all the benefits you seek to give him in your model instrument by your other provisions. Of special importance there is the question of reserves one way or the other, the question of carrying the mortgage in times of stress, in times when the borrower suffers sickness or loses his job and cannot make payments on the property, all that sort of thing that ought to be handled in your mortgage instrument, so that you may see daylight before you start with it.

Down in section 205, in reference to insurance of mortgages, if the mortgage is in good standing and is approved by the corporation with section 204, the conditions in the previous section, it provides that the mortgage may be offered to the corporation for insurance by it within 1 year from the date of its execution. You cannot have these mortgages come in much later, say, just before the mortgagee sees trouble is coming, when he will try to come in and have his mortgage secured. It should be done at the outset.

This section also provides for a premium charge to be set by the corporation and to be not less than one half of 1 percent nor more than 1 percent per annum of the original face value of the mortgage. The reason for that, of course, means that it will depend upon the locality and upon the extent of the appraised value involved. It calls for flexibility in the rate. That is payable only by the mortgagee, but, of course, it is passed on to the mortgagor.

It is provided here that—

It shall be the duty of the corporation to discourage socially undesirable building or purely speculative overbuilding, and the corporation shall have full power to refuse to insure mortgages where in the opinion of the corporation such socially undesirable buildings or purely speculative overbuilding will result.

The corporation is specifically charged with the duty of controlling undesirable building or purely speculative overbuilding. You have to have that control, and I do not know how you could get it more specifically, because it depends upon the individual instance of what is socially undesirable or speculative overbuilding.

Then we come to the manner in which the insurance operates.

If at any time the mortgagor under an insured mortgage shall be in default, and the mortgagee shall have duly foreclosed and taken possession of the mortgaged property, the mortgagee, if the insurance is in good standing, shall be entitled to convey and deliver the property to the corporation and assign to it all claims of the mortgagee against the mortgagor arising out of the mortgage transaction or the foreclosure proceedings, provided that with the consent of the corporation, property and claims may be turned over without the necessity of prior foreclosure proceedings.

Then upon turning the property over to the corporation, after that date the obligation to pay the premium charge ceases and that end of the deal is wiped out.

Thereupon the corporation delivers to him two things: First, the debenture of the corporation having a total face value equal to the value of such mortgage on the date of delivery of the property mortgaged, and that is determined by adding to the principal amount still due on the mortgage such other expenses as the corporation

approves in the way of taxes and insurance, which the corporation itself would have to pay anyway.

And it provides that—

Such debentures shall bear interest at a rate to be determined by the corporation but not to exceed 3 percent per annum.

Now, that is a 2 percent drop in interest. This gives him insurance of the principal at 2 per cent less on his interest, which I think is basically insurance as distinguished from mortgage guaranty. A fire-insurance claim amounts to an absolute guaranty, so that at the moment of collapse the investor gets it in full and then he loses all his interest. It is a risk element on him, as has often been stated if houses were insured against fire for the full 100 percent of value even nice people would have fires during depressions. And it is just the basic language of the insurance principle that you have some risk thrown back on the investor himself.

These debentures are payable 3 years after the mortgage would mature, so that if you have a 20-year mortgage and it goes into default and is turned over to the corporation at the end of 5 years, there would be 15 years yet to run on the mortgage, and the debenture would have an 18-year maturity, 3 years beyond that time. Now, that gives the corporation that 18 years in which to dispose of the property and to get back the amount of the debenture and seek to pay the amount of same and also to collect the premium charges to cover any losses that might be involved.

This element of deducting the balance of your insurance by the issuance of debentures continuing 3 years beyond the maturity of the mortgage, would permit you as in this depression I believe to spread the losses of the depression over almost a 40-year period. You could have gone back 20 years or ahead 20 years in that period, and you could have cushioned all the losses of the depression by the adoption of this principle.

Senator COUZENS. Is there any provision for a sinking fund or any special fund?

Mr. WATSON. They are paid out of the funds of the corporation, which, according to actuarial figures, will adequately be able to take care of them. But they are guaranteed as to principal and interest by the United States Government, so that in case they are not taken care of they will be paid at maturity.

Now, when I say actuarially there will be no drain on the Treasury as a result of this, I believe in one of the tables given to you before during this hearing it was shown that the funds in which these mortgages were segregated would be solvent if 25 percent of the mortgages went bad and if only 50 percent of the appraised value of a house were realized.

Now, that is quite a terrific figure; and whereas I am not entirely familiar with the mortgage field, and am somewhat inexperienced myself, it is just my feeling that if we ran into a depression involving losses greater than that, a depression which would wreck the scheme here set up, we would be faced with such a calamity as would become a Government problem anyhow. I think that is a complete answer as to any doubts as to the financial stability of this set-up.

Now, in addition to this debenture which you give a man, and as I understand it, it does not quite cover his full losses, he is shouldered

with his foreclosure expense, the loss of interest on his principal of 2 percent while he is holding the debenture, you give him in addition to that a certificate of claim for that amount, to be approved by the corporation; and that certificate of claim, if he has carried the mortgage along for a time during a time of misfortune, you give him rather a preferred claim on that for the amount he has carried along, and that will, in my opinion, cover all his expense.

Now, when you take property you keep it segregated; and you handle it as best you can, rehabilitating, modernizing, renting, or selling, as you see fit, to insure the maximum financial return. When that property is sold, if the property is sold for enough to cover the debentures, plus enough to cover the general claim, plus some excess, then the corporation reimburses itself for these debentures. Then it gives the mortgagee his full loss in the form of payment of his preferred claim. Then, in addition, he turns the excess back to the mortgagor. To that extent it is a startling principle. In the past the mortgagor always lost if he had his property foreclosed. But this introduces that additional element of equity to him.

If the property does not sell for enough to return him anything, you pay the mortgagee his loss as well as if it sells for even less than. So that if there is not enough to pay the general claim, the certificate of claim of the mortgagee, which is an additional expense of foreclosure, and things of that sort, then you reimburse the corporation and you pay to him the amount of that preferred claim in case he held off foreclosure and permitted the mortgagor to stay in possession.

You pay that in proportion to the losses suffered by the corporation. So that if the preferred claim was $500 and the amount of the debentures was $5,000, and you realized on the property less than $5,000, he would share out of that realization the proportion of $5,000 to $500, or 1 to 10. It was thought necessary to include that because of times of misfortune when it is wise to get the mortgagee to carry the mortgagor rather than to foreclose directly.

That gets us over to the working of the mutual principle, which is in section 207, where we provide for the creation of separate funds. Now, these funds are determined by the risk characteristics of the mortgages. They will be determined by the maturity date of mortgages, by the appraised value of the properties, by the character of the properties, by their geographical location, or such other elements as the corporation may determine. And, of course, upon this immediate set-up it will be necessary to secure the best advice from the field to do that. And as you proceed your experience will show you the proper classification of those characteristics.

Now, the income in the form of permanent charges from these mortgages in the same fund are put into an account for that fund. Then the debentures issued against them are charged to that fund. When properties are taken over, when sold, that money is put in there. So that the loss characteristics of that fund pay for themselves.

Now, then——

Senator BYRNES (interposing). In section 206 you refer to the corporation taking over property and renting, renovating, modernizing properties. What machinery is provided for caring for these properties when taken over? In other words, what local machinery

is provided? Through what agency would you operate until a piece of property, say, in the city of Cleveland, if you took it over, was sold, and who would have charge of it and would repair it and rent it?

Mr. WATSON. Again, sir, I will have to say to you——

Senator BYRNES (interposing). Is it provided for later on in the bill?

Mr. WATSON. No. It is not. I will have to beg inexperience; but my guess would be that since the mortgagee himself has an interest in the ultimate realization, since he will get something on his general claim and his preferred claim if he disposes of the house at a maximum price, he will doubtless have an interest in it and will look after it; and possibly in many instances of reputable mortgagees we will turn the property back to them and let them manage it as agent. That would not require the setting up of machinery in all the towns, which is much the same as insurance companies do.

Senator BYRNES. But insurance companies have agents as a general thing, and through their agents they can secure local supervision. I was wondering whether that had been provided for, or whether any thought had been given to the matter of machinery for that purpose.

Mr. WATSON. I believe a considerable amount of thought has been given to it. And if I may beg my inability to answer that question.

Senator BYRNES. Pardon me for interrupting you then. You were discussing section 207 when I interrupted you.

Mr. WATSON. Yes, sir.

Senator GOLDSBOROUGH. Mr. Watson, before you proceed let me ask you this question: Under section 201 of this bill, on page 11 of the printed bill, there is apparently a prohibition of lending money on leasehold mortgages. I should like to point out to you that 75 percent of all the small homes in the city of Baltimore are subject to ground rents, and in order to meet that objection the Home Loan Bank Act and the Home Owners' Loan Act of 1933 provided that the words "home mortgage" were defined to mean a first mortgage on real estate in fee simple or a leasehold under a renewable lease for not less than 99 years. Under the provision here the city of Baltimore would be largely shut out unless there were an amendment of the bill.

Mr. WATSON. May I have that specific reference again?

Senator GOLDSBOROUGH. Yes. It is under title II, section 201, page 11 of the printed bill:

> Lending upon the security of mortgages or such other liens as are commonly given to secure advances on real estate.

And the prohibition is apparently repeated in section 208, on page 15 of the printed bill.

The CHAIRMAN. I do not see a prohibition there, Senator Goldsborough.

Senator GOLDSBOROUGH. Well, that is what the Real Estate Board of Baltimore and the attorneys for that board point out to me in a letter from which I have just been reading.

Mr. WATSON. I am not sure that the prohibition is there, but it may be the language should be clarified.

Senator GOLDSBOROUGH. I should be glad if you would consider that.

Mr. WATSON. I will certainly do so, and am glad that you called it to my attention.

Senator GOLDSBOROUGH. I thank you.

The CHAIRMAN. In other words, you would not exclude property held on a 99-year lease from eligibility for a loan, would you, Mr. Watson?

Mr. WATSON. No; not at all. Socially I think it is in the same position as a leasehold.

Senator GOLDSBOROUGH. Then it is tantamount to fee-simple ownership of property.

Mr. WATSON. Yes. It is provided by law in Massachusetts that it is the same.

Senator COSTIGAN. Senator Goldsborough, in section 202 of this mimeographed draft it provides that the term "home mortgage" means a valid first mortgage on real estate in fee simple or on a leasehold under a renewable lease for not less than 99 years.

Senator GOLDSBOROUGH. Well, what about the bill as printed? They amended both the Home Loan Bank Act and the Home Owners' Loan Act in order to take care of that very proposition.

The CHAIRMAN. Very well. Mr. Watson says he will take that up. You may now proceed.

Mr. WATSON. I will proceed with the mutual principle as worked out in section 207 with reference to these mortgages. As I stated, the income from these segregated set-up mortgages, in the form of realizations from all types, is put into separate funds, and expenses are charged against those separate funds.

Then in subsection (e) we begin with a description of the permanent fund, and that is where the mutual principle is involved, in subsection (e), (f), and (g). When you have determined your losses up to a point to where the amount in your fund is equal to between 110 and 115 percent of what is still due on those mortgages, then it is time to wind up the fund and to pay the money back to the mortgagees for the benefit of the mortgagors, thereby paying off all the mortgages in full and terminating the insurance on those mortgages. So that if the losses have not been great, all this money comes back in the form of amortization to the mortgagors, and they get the benefit.

As to the provision about 110 to 115 percent, these three sections, I will work it out in detail so as to give a discussion on that. That is for the creation of a reinsurance fund, similar to other mutual insurance principles. From these several funds you draw off a small portion, which you segregate into a general fund, to save him against calamity in any particular event where losses might be unusually high. It is further provided that in case the mortgagee does not want to turn the property over to you but decides to keep it, how the matter may be settled up. And he has, really, upon the property, security as well as insurance security.

Senator GOLDSBOROUGH. Under what subsection of section 207 are you reading?

Mr. WATSON. It is subsection (i) of section 207. Also if the mortgagor wants to pay off the mortgage in full prior to maturity, of

course that terminates the insurance relationship, and you get out even.

The CHAIRMAN. You may proceed.

Mr. WATSON. Over in section 210 of the corporation is given the duty to make public studies looking toward a national system of standard appraisal. That, of course, is probably one of the basic things in the rehabilitation of the mortgage market. It is to get appraisals down to some sort of system where you do not successively puff your own values and thereby inflate values. That is a duty, I believe, everyone agrees must be undertaken, and that the Federal Government probably owes it as a social duty to take it up.

Now as to section 211——

Senator COSTIGAN (interposing). Section 208 in the mimeographed draft apparently is wrongly numbered 308.

Mr. WATSON. This is a rough draft which I thought would explain the matter in detail to the committee. All of this is sought to be covered in broad language in section 5 of the printed bill. Whether it is wiser to cover it that way or this way I cannot say.

Senator COSTIGAN. This is to give authority to administer the act.

Mr. WATSON. Yes, sir. In section 211 you handle low-cost housing projects and slum clearance, which provides for insurance of mortgages and sets up the different characteristics and the different terms and conditions to handle that problem. It is difficult if not impossible to go into more detail in reference to that.

The CHAIRMAN. Very well.

Mr. WATSON. I believe that covers a description of the mutual mortgage system. Are they any further questions?

The CHAIRMAN. Any questions by members of the committee?

Senator BARKLEY. Mr. Watson, of course this measure is in the nature of a departure from anything ever undertaken by the Federal Government, and therefore there is a good deal of education required, not only among the people but among those who represent the people. Various questions will be asked about this legislation in both Houses of Congress, and satisfactory explanations must be made as to the reasons for it and how it is going to operate. You will be available at any time, I suppose, and even in executive session, Mr. Chairman, if the committee should want to have any further background from you with reference to the measure?

Mr. WATSON. I should be very glad to be at your pleasure.

Senator BARKLEY. You will realize that there are many Members of both Houses of Congress who cannot listen in on these hearings and probably cannot read them, and they will have to depend upon word-of-mouth explanations from those who have had an opportunity to confer with you. So you will be available at any time, I take it.

Mr. WATSON. I will be very glad to tender my services at any time.

Senator BARKLEY. Have you any printed outside pamphlets or documents that might be useful to us? Or have any of you other gentlemen any printed matter or documents or summaries of conditions and the need for this legislation?

Mr. WATSON. I think something was put in here the first day of the hearings.

Senator BARKLEY. I would like to see such matter made a part of the record.

The CHAIRMAN. That may be done.

Senator COSTIGAN. Mr. Watson, have you digested the measure considered by the committee this morning?

Mr. WATSON. The only digest I have prepared was the matter in the first write-up on the housing bill which I presented to the committee when the hearings opened.

Senator COSTIGAN. And that is before the committee?

Mr. WATSON. Yes, sir.

The CHAIRMAN. Then I take it that is all, Mr. Watson?

Senator BARKLEY. Mr. Watson, did you give for the record in your appearance here, and I was not in the room at the moment, your background and past occupation and connections so that it may be available to us, just who you are, and what experience you have had, and how you came to get into this matter?

Mr. WATSON. Well, sir, I doubt if that would be of any particular value.

Senator BARKLEY. Well, I think a man's experience and background may frequently give testimony as to his qualifications. I know that you are a modest man and that naturally you do not want to parade the matter, but I should like to know about it.

Mr. WATSON. I have always attempted not to state any opinion, because I have little or no experience upon which to base an opinion.

Senator BARKLEY. What State are you from?

Mr. WATSON. I am from California, but I practiced in Boston prior to coming here.

Senator BARKLEY. You practiced where?

Mr. WATSON. In Boston.

Senator BARKLEY. As a lawyer?

Mr. WATSON. Yes, sir.

Senator WAGNER. Well, you have taken a big job.

Senator KEAN. Did you graduate at the Harvard Law School?

Mr. WATSON. Yes, sir.

Senator KEAN. Did you go to Harvard University before that?

Mr. WATSON. No, sir.

Senator KEAN. But you graduated at the Harvard Law School?

Mr. WATSON. Yes, sir.

Senator COSTIGAN. Then as a witness you ought to be competent.

Senator GOLDSBOROUGH. I will say that the gentleman comes highly recommended by a citizen of my State in whom I have every confidence.

Senator BARKLEY. Of course, I realize that the Senator from New Jersey would prefer that he had come from Princeton.

Senator KEAN. You cannot accuse me of that, because both of my boys are graduates of the Harvard Law School.

The CHAIRMAN. Very well, gentlemen. That is all, Mr. Watson.

Mr. WATSON. I thank you.

The CHAIRMAN. We will now hear Mr. Edward J. Russell if he will come forward to the committee table and take a seat opposite the committee reporter.

Mr. RUSSELL. Thank you.

The CHAIRMAN. You may state your name, residence, and occupation.

STATEMENT OF EDWARD J. RUSSELL, ARCHITECT, ST. LOUIS, MO.

The CHAIRMAN. Mr. Russell, have you examined these bills and do you know what this bill is?

Mr. RUSSELL. No, sir. I have not examined them in detail.

The CHAIRMAN. You wanted to be heard about this bill for a minute or two, I understood.

Mr. RUSSELL. I should like to speak about the condition of the construction industry as I see it.

The CHAIRMAN. Very well. Let us have that.

Mr. RUSSELL. As president of the American Institute of Architects and as vice president of the Construction League of the United States, I have had occasion in the last 2 or 3 years particularly to learn something about the construction industry. It is about 10 percent employed. Normally that industry affects, directly and indirectly, about 20,000,000 people in this country. We are absolutely on our uppers so far as present conditions are concerned. We need some sort of relief. We know that the buildings of this country, whether houses or other types of buildings, are sadly in need of renovation and repair. They have not been kept up to date. To start that work would furnish employment for a great many people.

Now, Mr. Chairman, I would rather answer questions if you desire to get from me some particular information. In answer to questions I will give you any information asked if I possibly can.

Senator BARKLEY. So far as you know about it, you are for the bill, I take it.

Mr. RUSSELL. Yes, sir.

Senator BARKLEY. You think there is need for the Federal Government to stimulate this work?

Mr. RUSSELL. I do not see how it can be done otherwise at the present time.

Senator BARKLEY. And you think it could be done in that way?

Mr. RUSSELL. I think it could be started that way.

Senator BARKLEY. Are you interested in any way in any construction company?

Mr. RUSSELL. No, sir. I am an architect, engaged in independent practice, but—well, I still am, but do not know how long I will be.

Senator BARKLEY. And you hope to be in practice again.

Mr. RUSSELL. Yes, sir.

Senator COSTIGAN. Do you express the views of architects generally?

Mr. RUSSELL. I think I do, sir. I say that because I have been the president of the institute for 2 years, and was vice president for 2 years before that, and in that connection I have met architects from all over the country.

Senator COSTIGAN. Has the institute adopted any resolutions related to this proposed measure?

Mr. RUSSELL. I think the institute is apt to do that this morning, because they have a session devoted more along that line than any other.

The CHAIRMAN. And you will send us those resolutions if they adopt them?

Mr. RUSSELL. Yes, sir.

Senator BARKLEY. I should like to get your reaction and reasons for believing that the passage of a measure of this sort will stimulate the movement of private capital into the construction industry.

Mr. RUSSELL. Well, private capital seems to be unable, or at least certainly unwilling, to do anything at present. They are looking to the Government for the priming of the pump along this line, and I will say that it is the second largest industry in this country. We believe that the Government could be most effective in helping us to go along and thus help the whole country.

Senator BARKLEY. Have you had by experience or observation any opportunity to learn to what extent the priming we have been doing has stimulated private capital to get into some other channels?

Mr. RUSSELL. Well, it is working. It is not working as fast as we had hoped for, nor as fast as we had expected. But there are signs. I think if this bill were enacted into law it would have a greater influence than anything that has come up in the past. I am speaking now from a construction-industry point of view.

Senator BARKLEY. Has the lagging in the matter of repair and renovation of home property been greater or smaller than that in the case of business property, if there is any difference in the matter of percentage?

Mr. RUSSELL. I doubt whether there is a great deal of difference. There is practically nothing doing in either.

Senator BARKLEY. As an architect, do you think we have absorbed the surplus of homes that was created during the boom days?

Mr. RUSSELL. No, sir.

The CHAIRMAN. Then we do not need to build any new homes.

Mr. RUSSELL. I am sorry. I must have misunderstood the Senator's question.

Senator BARKLEY. I asked you if you thought we had absorbed the surplus of homes created during boom days?

Mr. RUSSELL. No; I do not. During the war I was on the Housing Division of the Shipping Board, and after that I was intensely interested in housing in St. Louis. We formed a corporation to built houses, just to supply the demand. I have watched the development of that corporation, which went out of existence just as soon as private individuals were prepared to act. There is a real need for homes, and there is an even greater need for the repairing and modernization of homes.

Senator BARKLEY. You say there is a real need for homes?

Mr. RUSSELL. In my opinion.

Senator BARKLEY. Over the country?

Mr. RUSSELL. Of the small homes.

Senator BARKLEY. New homes?

Mr. RUSSELL. New homes.

Senator BARKLEY. Then you did not understand my question.

Mr. RUSSELL. No; I say I did not.

Senator BARKLEY. You think we have all absorbed the surplus that has been taken up, occupied?

Mr. RUSSELL. Yes.

Senator BARKLEY. Especially with reference to the smaller homes?

Mr. RUSSELL. Yes.

Senator BARKLEY. Of the working men?

Mr. RUSSELL. I am thinking of the working man only, the very small homes only.

Senator BARKLEY. There was an overbuilding of rather high-priced houses for the benefit of the so-called "white-collared boys?"

Mr. RUSSELL. Yes, sir. They may be still had at 30 cents on the dollar. That is the larger ones.

Senator KEAN. Then there are a large number of places that are already built that are unoccupied; is that right?

Mr. RUSSELL. There are vacancies; yes, sir.

Senator KEAN. Yes, sir; a large number of vacancies?

Mr. RUSSELL. I do not know what the statistics of vacancies is, but most of those vacancies, from my observation, have been due to the necessity of doubling up. In other words, families double up.

Senator KEAN. Yes; but the houses are unoccupied?

Mr. RUSSELL. Some houses are unoccupied.

Senator KEAN. And there are houses for rent in every community you go in in large numbers?

Mr. RUSSELL. Yes, sir.

Senator KEAN. Of course, the architects find themselves in the place where building has stopped, commercial building has stopped, homes have been stopped, and the consequence is they have been harder hit than anybody else?

Mr. RUSSELL. I think so.

Senator KEAN. And most architects are in pretty desperate circumstances?

Mr. RUSSELL. Yes, sir.

Senator KEAN. And you are representing those desperate architects?

Mr. RUSSELL. I am representing those desperate architects. We had a case come up, as an illustration, the other day: An architect of prominence in a large southern city is now happy because he is a policeman on a municipal golf course. He has something to do. I know of plenty of them that are in filling stations and in practically every occupation except that of architecture.

The CHAIRMAN. When did that begin, that situation?

Mr. RUSSELL. It became acute about 2 years ago. The architects in St. Louis 2 years ago provided a fund to take care of the younger men. We carried on as long as we possibly could helping them.

Senator TOWNSEND. Some years your corporation built a good many houses?

Mr. RUSSELL. What is it?

Senator TOWNSEND. You say your corporation built a good many houses?

Mr. RUSSELL. No; I did not say a "good many." We did build a number, but that you have got to qualify. I think the corporation at that time probably built about 75 to a hundred houses only, and they were scattered. Usually they were 4- and 5- and 6-room houses; nothing larger than a 6-room house.

Senator TOWNSEND. They have all been disposed of?

Mr. RUSSELL. They have all been disposed of.

Senator TOWNSEND. You are not building now because of the fact that you cannot get funds?

Mr. RUSSELL. Cannot get funds and cannot get anyone interested in building.

Senator TOWNSEND. Or in buying?

Mr. RUSSELL. Yes. Sometimes someone will pick up some money somewhere and buy one, but they are the larger houses.

Senator BARKLEY. These vacancies that you say exist now, are they largely among the higher-priced houses?

Mr. RUSSELL. Oh yes; much more the higher priced than they are the lower priced.

Senator BARKLEY. There is no surplus of houses among the working people?

Mr. RUSSELL. There are vacancies; yes.

Senator BARKLEY. I mean to speak of, not any more than normally?

Mr. RUSSELL. No; I think as a matter of fact that the vacancies among the smaller houses are less than among the larger houses.

The CHAIRMAN. How about apartments?

Mr. RUSSELL. Apartments—certainly the larger ones are very largely vacant; I mean the higher rentals.

Senator TOWNSEND. Then do you feel if you could secure funds you could proceed to build with your corporation?

Mr. RUSSELL. No; our corporation has gone out of business. It went out of existence approximately in the emergency past, and it was more a past experience. I am not interested in any corporation whatsoever.

Senator TOWNSEND. But you do feel if you could secure funds you could proceed to build and sell your homes?

Mr. RUSSELL. I say this corporation is out of existence practically. It is almost liquidated. We sold houses on long-time payments and those long-time payments have just about matured.

Senator BARKLEY. You, in other words, have accomplished the purpose for which the corporation was organized?

Mr. RUSSELL. Yes; but we got out of that business some 7 or 8 years ago.

Senator BARKLEY. You do not contemplate its revival?

Mr. RUSSELL. No, sir; we do not.

The CHAIRMAN. But the question is if you did revive it would you be able to construct homes and dispose of them?

Mr. RUSSELL. If we did—I will say right now we will not revive it—but if a corporation were formed and could get the money, I believe it would be thoroughly justified in building homes, small homes. When I say "small" I mean nothing over six rooms.

The CHAIRMAN. How far behind would you say in current repairs are we now, taking the country as a whole, needed repairs?

Mr. RUSSELL. Four years.

The CHAIRMAN. How much?

Mr. RUSSELL. Four years, I believe, is conservative.

The CHAIRMAN. How long would it take to catch up if conditions, either under this bill or normally or for any other reason, should make it possible for people to get money and make them feel like they could repay it and make those who loan it feel like it could be repaid? How long would it take to take up the slack?

Mr. RUSSELL. I would say that it would be taken up within 6 months after you were ready to actually start.

The CHAIRMAN. That would mean that more men would be employed for that period than would be normally employed in keeping repairs current?

Mr. RUSSELL. Yes, sir.

Senator TOWNSEND. Then what would happen at the end of that 6 months?

Mr. RUSSELL. I think all that we need is something to start us on our way. If we can get people in the habit of thinking that it is possible to build there would be plenty of them that would take it up.

Senator BARKLEY. In other words, it would be good for economic sore eyes to see a new house going up somewhere?

Mr. RUSSELL. Yes.

Senator GOLDSBOROUGH. The wisdom of psychology?

Mr. RUSSELL. Yes, sir.

The CHAIRMAN. Is there a prospect of people who built those houses being able to keep them up, keep them going? They have got to have some resources or income or employment or something of that kind.

Mr. RUSSELL. Yes, sir; that is perfectly true, and I assume that anyone who undertakes that looks at that phase of it before they encourage them to incur an obligation. But I think it is entirely possible. I think there are plenty who would do it. I have no statistics. I do not intend to give you that impression at all.

The CHAIRMAN. All right. Any other questions of Mr. Russell? We will excuse you, Mr. Russell. We are much obliged to you.

Mr. John R. Fugard.

STATEMENT OF JOHN R. FUGARD, EVANSTON, ILL., PRESIDENT OF THE NATIONAL ASSOCIATION OF BETTER HOUSING

The CHAIRMAN. Mr. Fugard, we would like to hear from you, and you want to be heard. You are president of the National Association of Better Housing, are you?

Mr. FUGARD. Yes, sir.

The CHAIRMAN. State your name and residence and occupation.

Mr. FUGARD. John R. Fugard, Evanston, Ill. I am an architect by profession. On this particular measure I would like to speak very briefly my views of the social necessity for this measure.

The CHAIRMAN. Very well, sir.

Mr. FUGARD. I believe that I have the viewpoint of the farmer in this regard. The fact that I was born and raised on a farm in Iowa makes me still retain that viewpoint, I believe. We passed through a period of the last 3 or 4 years where it has been practically impossible for the little fellow, the small-house owner, to obtain any financing for the repairs and remodeling of his house, and I can see in this measure that opportunity.

I can also see the social desirability of this measure from my experience in my home town. Evanston, as you may know, is very closely situated to Chicago, sometimes referred to as the "bedroom of Chicago", a highly desirable place to live. It is a community of homes. Many people of the white-collared class have purchased

building lots in Evanston, people who work in Chicago, clerks and so forth. They have purchased property with idea of building homes so that they may raise their families and educate their children, in the proper environment.

They have been unable to secure financing for their homes. The rich man along the north shore of Chicago, north of Chicago, has had in the past no particular difficulty, it seems, because they built many of those large homes. But the little fellow has had no opportunity in the past few years, past 3 or 4 years, to build his home to raise his family.

As a consequence, we have large areas in Evanston and the surrounding communities of Chicago that have vacant property on which the owners have bought these lots, these building lots, with the idea of building homes, paying for them on the partial payment plan over the years. They have their improvements in; they are ready to build homes but cannot secure the financing.

I would be glad to answer any questions.

The CHAIRMAN. Do you know of any building and loan associations that would accommodate them, or private individual?

Mr. FUGARD. I do not know. All I know is what I can see, that they do not build because they cannot get financing.

The CHAIRMAN. There is plenty of money there to loan, isn't there?

Mr. FUGARD. It would seem so; yes, sir.

The CHAIRMAN. Very well. Are there any questions you want to ask Mr. Fugard? Is that all you wish to say, Mr. Fugard?

Mr. FUGARD. Yes.

The CHAIRMAN. Have you observed conditions anywhere else except locally there? Do you know whether those conditions obtain elsewhere?

Mr. FUGARD. I am quite familiar with the conditions in the farming communities. As I say, I come from a farm in Iowa. I know what conditions are there, and I think they are the same general conditions that prevail throughout Iowa and throughout rural Illinois and perhaps everywhere else in the country.

The CHAIRMAN. We are very much obliged to you.

Would you like to go on now, Mr. Fahey?

Mr. FAHEY. If you like.

Senator BARKLEY. Would it not be desirable to have Mr. Fahey go on when we have more time? The Senate is going to be in session in a minute and some of us are interested in the tariff bill and have got to be over on the floor. I would like to be here when Mr. Fahey testifies.

Mr. FAHEY. It is agreeable to me.

The CHAIRMAN. Yes; I think that would be a good plan, when more members are in. Very well; we have a very few minutes now and we will take Mr. Fahey tomorrow.

Mr. Marsh, did you want to be heard on this matter?

Mr. MARSH. Yes.

STATEMENT OF BENJAMIN C. MARSH, WASHINGTON, D.C., EXECUTIVE SECRETARY OF THE PEOPLE'S LOBBY

The CHAIRMAN. State your name and residence and occupation.

Mr. MARSH. My name is Benjamin C. Marsh. I appear as executive secretary of the People's Lobby, with headquarters here in Washington; and I would state, Mr. Chairman, that I have been interested a good many years in housing, and about 1907 I went abroad and studied housing, particularly municipal housing, and wrote the first book written in America on housing, An Introduction to City Planning, and have studied housing considerably since.

I want to suggest that this bill seems to me to illustrate a story of a man who was approached by a little girl and asked for a contribution for a benefit, and he said, "Why, I gave you a contribution for a benefit for the ladies' social last week." "Yes", she said, "but we are having another benefit to make up the deficit of the last benefit last week."

I have here the figures of what the Government has done in the way of making loans, and it illustrates the utter futility—with deference to the chairman, whom I know is not fully responsible for this bill—of attempting to meet the situation by underwriting, guaranteeing, or insuring debts and capital structure, instead of facing the music, as we have refused to do to date, and recognize that we are not going to get out of this mess peacefully unless we write down these debts and interest rates and write down capitalization of corporations and write down land values. Now, here is what you have been doing to resuscitate loans up to date, and I quote from the latest figures I have been able to get, the report of the Reconstruction Finance Corporation of May 3, 1934.

Of course, some of these have been repaid. I understand in total about a third of the total. Loans to banks and trust companies—I use round figures 1,553 million. Mortgage loan companies nearly 252 million. Building and loan associations, 114 million. Insurance companies, 89 million.

Now, as I understand the purpose of this bill, it is to help people make repairs to their houses. Well, there is a certain extent to which States and localities have some responsibility. I am going to speak, by the way, tomorrow, on a coast-to-coast hook-up under the N.B.C. and discuss some of these problems rather frankly; go out in the Middle West next week.

The cities have permitted land speculation, which is the worst menace to housing. I have helped get through zoning schemes. We organized the National City Planning Conference that was opened when Taft was President, held down here. The cities have missed it. And I hope the Senators will get these facts.

New York City has about 8 billion dollars of mortgage bonds. An article in the Nation a few months ago reported that 3 billion of those bonds were guaranteed and that the largest reserve in any company which guaranteed the bonds to meet the requirements was 10 percent and the smallest reserve was 2 percent.

Now, it seems very inappropriate for the Government to say we are going to guarantee any properties or any mortgage or any bond or any indebtedness until it first fulfills its responsibility to those

who have not got a cent and have not got a job and don't know where the next meal is coming from, and Mr. Hopkins, whom I understand is to appear, will probably give you details on it, but I understand from the latest reports of the American Federation of Labor that were made this year that the number is in the neighborhood of 8 million wholly unemployed, and the number increasing.

There has got to be construction. We have heard a great deal about how the Hoover administration fell down on construction of public works. I would like to read the facts from one of the editorial research reports no. 12, March 27, this year, showing that last year, in spite of all the talk about it, the total of public works was $1,300,000,000, compared with $2,065,000,000 in 1932, $2,927,000,000 in 1931, and $3,300,000,000 in 1930.

It is nonsense to think that you can resuscitate the building industry by guaranteeing bonds or mortgages. There is only one agency that can meet the housing situation in the United States today—and I cannot quote anybody—and that is the Federal Government.

Now, suppose you loan the first $2,000 in New York City—and I am sorry Senator Wagner was called out, because he has known me there when I was working on this for years—loan them $2,000 to improve a little home and you guarantee the mortgage. Then the average tax rate on that $2,000 which will go into improvements which will increase the assessed valuation, is about 2½ percent, and you soak that poor devil $50 a year because he has improved his building.

I would like to say I think it is absolute stupidity for the Government to talk about guaranteeing bonds while it permits the men who sell materials for building, the Steel Trust, the Cement Trust, the Lumber Trust, and every other trust that controls these things, to raise their prices the way they are doing. If you would stop the grafting and special privileges which are prevailing now—as ever; I am not making a partisan speech, but merely a factual one—you would not need so many of these alleged measures to help people construct homes, and you simply cannot produce enough in America with 4 or 5 percent of the people owning four fifths of the wealth to meet the situation.

I am just reading an article written by a professor in the University of California. In 1928—and this was substantially true up to 1931—150,000 people got about two thirds of all dividends paid to individuals and institutions not operated for charity. Six hundred thousand people out of 125 or 130 million, got three quarters of all dividends available. One ten-thousandth of 1 percent of the population received nearly one twentieth of dividends, and one eighth of 1 percent received over two thirds.

Now, if you want to meet the housing situation, if you want to get your public works program started, you have got to do two things: You have got to insist that the Federal Government will not give one cent of credit to any city or any State which does not transfer taxes from improvements to land value, so you will encourage people to put up homes instead of soaking them with taxes on buildings to the tune of 2 to 2½ percent a year; and I would like to have it go into the record that I have discussed this with Secretary Ickes and he recently wrote me that he has requested Robert D. Kohn, the head

of the Housing Corporation, to make an investigation of the feasibility of transferring taxes from improvements to land values.

There are shortages of houses. You ask another witness whether he had been in cities. Within about 9 months I have been in cities from Boston to San Francisco and Seattle to New Orleans, and all over the country, and the housing conditions are desperate and nothing has been done on the housing situation. You know that Langdon Post, commissioner of tenements in New York City, has commenced to do what we urged when I was there for many years should be done, a simple thing, just enforce the law and close these insanitary tenements instead of repairing them. It is true that at least 40,000,000 people in America live in substandard housing, but guaranteeing mortgages is not going to affect the housing situation except to make it worse.

And we have tried these other experiments—and it is admitted that they are experimental—and God knows I never imagined that one administration would try so many economic futilities and experimentation. And they are not working. That is not my indictment; the indictment of the American Federation of Labor in this May Monthly Review of Business.

I am not at all criticizing people who want to help housing, but not a single European country—and I have studied municipal housing in most of them—has gotten at the basic principles involved in housing the people; that is, unskilled workers and people of small incomes, at a decent rent or helping them to get homes.

Furthermore, Mr. Chairman, it is not going to be possible in my judgment to do this. I note in this morning's paper that the President anticipates that there is going to be exploitation next year because he is going to ask you—I will just read it briefly—to do the following things—in the New York Times this morning: Creation of a permanent labor board within or independent of the Department of Labor. That will not make one job additional.

Federal unemployment insurance. That will help people to exist.

National old-age pensions, Nation-wide insurance against sickness among industrial employees; provisions for a long-range Federal housing program.

Well, if it is anything like the contemplated one it means subsidized land speculators, because I took it up carefully with Mr. Kohn, with Secretary Ickes, both of whom I have known for a great many years, and on the cheapest land that they know they could get, with 22 families per acre, which is all it should be except in very congested areas, each family would pay $100, in round figures, a year land rent, and they cannot afford it, and that was the cheapest they could get.

The next proposal is an amendment of minimum-wage provisions of the N.R.A. to relate wage rates to living costs. Now, that program is social insurance against exploitation, but Germany did it. When I was over there in the early nineteen hundreds they were going wild over it. England did it. And none of them have settled the issue.

Now, with the purpose of this bill, of course, I am in hearty accord, but I suggest that the Federal Government should not enable any insurance company or any mortgage company or any other

company to continue to take excessive interest rates from any individual. The Government has no right to do that. In my judgment, no government has a right to guarantee any return on income from property until the people of the Nation are assured a decent living, and I trust that Mr. Hopkins will talk as frankly to you if he appears as he has at other times.

If you want to meet this housing situation, you will have to create a Government housing corporation with the right of eminent domain to go into every city of the Nation and condemn property and insist that the local authorities clean insanitary properties. You will have to give the Federal Government the power to insist that cities and States tax the Vincent Astors and the Vanderbilts and the Morgenthaus—I speak from my wide experience in New York City—and stop taxing people who put up little homes. You may know that savings and loan associations, the national president, Charles O'Connor Hennessey, has advocated this for years.

If you want to have public works, a big program, and increase what we did last year, which was roughly a little over a third of the 1930, or approximately a third, you will have to get the N.R.A., the public-works section, to provide that you assess the cost of improvements on property benefited.

I have submitted to Mr. Ickes a statement prepared by an important commercial institution in New Jersey showing by counties, six counties, the increase in land values due to the improvement, for which they were asking the Federal Government to give them money, and it was almost exactly six times as much as the cost.

This is a reactionary measure, in my judgment—this section. Housing I am discussing particularly, because it is a complete evasion of the economic issues; and you cannot get us back to prosperity by trying to keep the overhead burden of rent, interest, and profits.

I hope you will pass a real housing bill. I will be very glad, Mr. Chairman, to see this committee substitute a really intelligent bill for the measure which was handed to you; and if you have even 25 percent of a success in such a measure as you had in curtailing the peculations of the New York Stock Exchange, you will have conferred another very great benefit upon the American people. I thank you.

Senator GOLDSBOROUGH. Mr. Marsh, I gather from what you say that you favor the principle laid down in this act, but thing it ought to be amended in very many particulars. Have you any constructive amendments that you can submit to the committee?

Mr. MARSH. I am not a bill drafter. I outlined the principles of the bill for a Government housing corporation, and, adding a detail, I will state, as I shall on the radio tomorrow, that the Government, if necessary to do this, should take over the Steel Trust and the Cement Trust and the Hardware Trust and the rest of them, so that they can provide housing decently.

Senator GOLDSBOROUGH. That is a big job, sir.

Mr. MARSH. All right; if you cannot do that, there will have to be—no; you are on the other side. A party will have to come in which can do it.

Senator GOLDSBOROUGH. I hope you are not far wrong.

Mr. MARSH. I am not discussing politics, because my slogan about politics is: "If Thou, O Lord, should mark iniquity, O Lord, who would stand?" And I do not talk politics.

But I think you realize when the A. F. of L. says there is no increase in purchasing power of those who are employed or reemployed, because the cost of living has gone up as much, and the only reason we have not a complete chaos and collapse in the country is because the Government has dished out—it had to—in loans on relief more than the total increase in the wage bill and the total increase in the amount farmers get.

And how do they get it? By borrowing from the rich instead of taxing them. My first concrete suggestion—I will have a bill drafted within a few days if you like one—is if you will guarantee its enactment.

Senator GOLDSBOROUGH. I am afraid you will have to leave that with the President. I do not think I could guarantee that.

Mr. MARSH. Your interest in the question aroused in me the hope that you can do so, Senator.

Senator GOLDSBOROUGH. No; I am afraid that is too vast a power, sir.

Mr. MARSH. But Congress has not yet surrendered its right constitutionally to initiate legislation and to pass legislation. Don't get me started on that, please.

Senator GOLDSBOROUGH. I am not going to start you on that; no.

Mr. MARSH. Second, as the whole building problem is involved in this, you can amend the public-works section, as I suggested with Senator Wagner sitting with the Senate Finance Committee when this bill was pending, to provide that the cost of improvements be assessed upon property benefited; that is, of Federal improvements. Out of that $3,300,000,000 carried in that measure Secretary Ickes wrote me the other day—I am using round figures—$2,550,000,000 is to be paid by the Federal Government. The States and the cities do assess a lot of the cost of these improvements upon property benefited, and I was informed that there is nothing in the Federal Constitution to permit the Federal Government to do what cities and States do—that is, assess at least part of the cost of improvements on property benefited—but equally I was informed that there was nothing to prohibit it.

If you seriously would like to have such a bill drafted, I will get it to you in a few days, and I think the best man to draft it would be Hon. Robert D. Kohn, head of the Housing Corporation.

The other is a simple amendment which will save the Federal Government billions of dollars in the course of a year or two.

I thank you very much and appreciate the privilege of appearing.

The CHAIRMAN. We will be glad to consider anything you submit, Mr. Marsh.

Mr. MARSH. There are some minor verbal amendments. Suppose I write a letter on that and do not take the time. But please do not think that by submitting amendments I endorse the methods which this bill contemplates.

The CHAIRMAN. I understand.

Mr. MARSH. Thank you.

The CHAIRMAN. Now we will take a recess until tomorrow at 10 o'clock.

(Letter referred to is as follows:)

THE PEOPLE'S LOBBY, INC.,
Washington, D.C., May 19, 1934.

HON. DUNCAN U. FLETCHER,
Chairman Senate Committee on Banking and Currency,
Washington, D.C.

DEAR SENATOR FLETCHER: In conformity with the suggestion of the committee, I am submitting herewith in addition to my testimony on the bill (S. 3603), suggestions as to the bill.

Section 2, page 3, lines 5 following, provide that the President may in lieu of calling on the Reconstruction Finance Corporation for funds, allocate amounts from funds available to him or may be made available for emergency purposes.

It seems unwise in undertaking a project of this sort, to have this open, instead of making adequate and specific provision. Same section (p. 4, line 1, ff) permits the board of directors "without regard to the provisions of any other law" to appoint employees, etc. Such latitude is unwise in a measure of this importance, for civil-service rules should be enforced even in an emergency. Section 5, page 6, line 8, permits the corporation "upon terms to be determined by it" to insure mortgages, etc. If this is to be done, and I opposed as you recall the general principles of the bill, Congress should determine the basic principles upon which Government insures mortgages and liens. Section 6, page 7, line 18, following, not only unconditionally guarantees bond principal and interest by the United States, but stipulates that such obligations "shall be exempt, both as to the principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes)" now or hereafter imposed by the United States, etc.

It is somewhat crowding the mourners to guarantee principal and interest and not to tax income therefrom. We should get away entirely from the issuing of tax-exempt bonds. Section 202, page 13, line 5, has a typographical error, the word "of" appearing twice consecutively. Same page, section 3, line 7, stipulates that the minimum amount of capital with which any association can commence business "shall be not less than $5,000,000." This would seem to preclude smaller institutions from participation in the benefits thought to be obtained by the bill. Section 210, page 16, line 24 following, precludes the Board from winding up the affairs of any association until the value of its assets "is less than one-twentieth in excess of its outstanding liabilities." This would permit a corporation to continue up to this point and where principal and interest are guaranteed by the Government, this certainly is not a safe margin. The assets should be at least one-third in excess of outstanding liabilities. Section 215, page 19, line 6, makes a reference to section 5243 of the Revised Statutes, which, of course, may be intelligible to a lawyer, but is a dangerous precedent. Section 307, paragraph (b), page 30, line 21, states the insurance companies shall pay "all valid credit obligations" of such Federal savings and loan association, etc. The word valid should be defined in the law, and not left to political interpretation. Section 308, page 33, line 14, states that the insurance corporation "shall perform all such reasonable duty" as depository and fiscal agent "as may be required of it." The duty of the corporation should be specifically defined in the law, and not left to the interpretation of the Board.

Yours sincerely.

BENJAMIN C. MARSH, *Executive Secretary.*

(Accordingly, at 12:15 p.m., the committee adjourned until 10 a.m. the following day.)

NATIONAL HOUSING ACT

SATURDAY, MAY 19, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on yesterday, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Barkley, Bulkley, Costigan, Adams, Bankhead, Steiwer, Kean, and Couzens.

Present also: Senator McCarran, of Nevada.

The CHAIRMAN. The committee will come to order, please. We will hear first this morning Mr. Edison. Mr. Edison, will you please come forward to the committee table and take a seat opposite the committee reporter?

Mr. EDISON. Certainly.

The CHAIRMAN. Give you name, residence, and occupation.

STATEMENT OF CHARLES EDISON, LLEWELLYN PARK, WEST ORANGE, N.J., PRESIDENT OF THOMAS A. EDISON, INC., AND STATE DIRECTOR FOR NEW JERSEY FOR THE NATIONAL EMERGENCY COUNCIL

The CHAIRMAN. Mr. Edison, will you tell us what has been your connection here in Washington with this work?

Mr. EDISON. Mr. Walker asked me to come down to help on this housing program. I have been in Washington just a short while associated with him in working up some of the details of this program.

The CHAIRMAN. We will be glad to hear your views about this bill (S. 3603), and its plan.

Mr. EDISON. I should like to discuss this bill from the angle of one who has been out on the firing line. I have just come from New Jersey, which New Yorkers call "the sticks", where I have been out on the firing line meeting people. As State director for New Jersey there have been many problems we have had to handle in coming in contact with people, problems that have to do with the various agencies of the recovery program.

Prior to becoming State director for the National Emergency Council I served, since last summer, on the State recovery board and on the regional labor board, which service brought me in contact with people, all of the time with people, and with their problems, with the every-day human problem that would come up to a man occupying such position.

I might explain that it was not the case of sitting in the office and having people come in to us. We had to get right out where the problems were, and we did that, and it meant going out to some small towns where there were labor difficulties. It was a matter of handling the problem of the home owner himself, and it was not only getting to the home owners alone, but getting to individuals in all walks of life. We have talked with them as individuals and tried to find a solution to their problems.

In the National Emergency Council work we have naturally had to come in contact with all the different phases of the recovery program. In that way we have talked to home owners and considered their problems, and have considered banking problems, and housing problems, and other problems. Out of all this the picture has evolved in my mind of what is really the most important problem we have to face today.

Many of the problems of recovery are solved. It is certain that we are on the road out of the depression. But there will be no true recovery, in my opinion, as long as some of these problems that have to do with heavy industries—construction and whatnot—are not met in the broadest and biggest way we can meet them.

It seems to me that this bill is a most important part of the recovery program, in fact the most important part of that program left to be done. As I have sat in my office in Newark I could look out and see a bread line form across the park, a line about four blocks long, and whereas we have thought that things were getting better all the time, this bread line did not diminish.

I could not understand that situation, and so I had many of those people interviewed. Who were they? They were carpenters, they were bricklayers, they were people that work in linoleum factories, and hardware factories, and all the different vast number of enterprises that serve the housing group.

We could not do anything about it because there was no building. There was no repairing. Those people would come in to us and say—well, they would tell stories about losing their homes, about not having any work, about suffering sickness. They would tell about their property just being eaten away by rust without any possibility of getting any funds to repair them.

Therefore it seemed to me it was quite obvious that unless we solved that particular problem, involving the problem of unemployment, we are going to face next winter the most staggering situation of unemployment, not only in these industries but in kindred industries that we have yet faced. And I think the emergency relief will be called upon to take care of people in a way that they have not been called on before. That problem, it seems to me, must be met in a big way.

Many of these people have income-producing properties. Perhaps they live in 2-family houses where they depend upon renting the first floor or the second floor and getting an income in that way. Due to the fact that no repairs have been possible for many years, or for 4 years anyway, these properties have run down. They are not rentable. Being bad enough to start with, they have gradually gotten worse. They have lost their tenants, and also have lost their jobs and are right back on the cities and towns and the Federal Govern-

ment for help. Their savings, which were in their homes, have been dissipated to rust and disrepair, and it seemed to me that something had to be done to help people to be able to maintain their property. That is one of the biggest national assets. Some means must be found for maintaining that asset or the savings of our people will be put in jeopardy through deterioration of property.

I have talked to a great many people about the situation, and they have claimed that in previous depressions there have always been elements that same in to pull us out of the depression. They have stated that in previous depressions there was relief from some source, perhaps great railroad expansion has come to pull us out of some of our jams, or the automobile came along to pull us out of some other jams; and the radio was the last thing that came along. But in this depression they tell me we have nothing of that kind. They say there is no miracle that is going to appear to really start the wheels going again.

As I listened to all these people that came in day after day to tell me about their housing problems, and work problems, and every other conceivable problem, the thing just stood right out that here we have under our nose the biggest thing that has ever come into any depression to pull us out of that depression, and that is the very great depreciation that has taken place in our largest national asset, these homes.

There is work for years to come in merely putting the properties back into the condition they were in before this depression took place. There is also work for years to come in replacing the housing that has deteriorated beyond all hope. And even then we will only have a country that is full of inferior housing and as to which it is almost a national crime to let people live in, I mean in the kind of homes they live in.

So that it seems to me there is nothing we could do that would meet the emergency problem better, and also that would lay the basis for long-term sustained prosperity, that nothing would do it better than to solve this problem of housing.

Senator KEAN. Will you explain just how you think that will bring about prosperity?

Mr. EDISON. I beg your pardon?

Senator KEAN. I say, why do you think that would bring about prosperity?

Mr. EDISON. Well, work makes prosperity, I think, and nothing else. Unless you furnish work to a vast number of people doing useful things and not merely shifting one pile of dirt from one place to another, but engaged in actual building, you do not have prosperity, and it seems to me that is prosperity.

Senator KEAN. That is all true, but the other side of the picture is: How are you going to pay for this work?

Mr. EDISON. Well, if people have earning power they have a means out of which to pay, and you would pay for this work like you pay for everything else, out of earnings.

Senator KEAN. Yes, that is true; but what I mean to ask is: This does not add anything to the earning power of the home owner, does it?

Mr. EDISON. It adds to the earning power of those who do the work.

Senator KEAN. Certainly; and it is helpful to that extent; but how about the man who borrows the money to make the repairs? This does not add anything to his earning power, does it?

Mr. EDISON. It helps the man who does the repairing.

Senator KEAN. Certainly. But that is not the point I am trying to get an answer to. As to the man who borrows money to make repairs on his house, we will say that if he puts in a bathroom that doesn't add anything to his earning power but does add to the earning power of the plumber who might not otherwise be employed. He has gotten some money out of it, but so far as my particular question is concerned let me ask: The man who borrows the money to make the repairs, where is be to get the money from to pay it back? This isn't providing any means of earning anything so far as he is concerned, is it?

Mr. EDISON. No; perhaps not, but——

Senator ADAMS (interposing). That question refers to the borrower.

The CHAIRMAN. The home owner will have his property improved.

Mr. EDISON. Yes.

Senator BARKLEY. The very fact that the plumber is given employment will aid him to buy something, perhaps, from the home owner.

Senator KEAN. That is true. But I am trying to find out where Mr. Edison thinks that money is coming from. He stated that this plan was going to make prosperity. I was simply trying to find out how the fellow who incurred the debt would be helped.

Mr. EDISON. The man who incurs the debt is really preserving his savings. It seems to me that is a worthwhile enterprise. And the man who does the work on the property gets the money.

Senator KEAN. I understand that.

The CHAIRMAN. You may proceed with your statement, Mr. Edison.

Mr. EDISON. Well, I haven't very much more to say, except that when I came to Washington, after being out in the sticks, as some people call it, and meeting these problems day after day, meeting the people as individuals and not merely as a general class of home owners or mortgagees, I felt I was being made acquainted with their individual conditions. And I met literally hundreds of them. Well, when I came to Washington I felt that I had a pretty clear idea that this was our big single problem, and that it was necessary for us to meet that particular situation. When I looked over this plan which has been prepared and which is now before you in the shape of bill, S. 3603, it seemed to me it was the answer to all these prayers I have been hearing all this time. I looked at that plan very carefully. I am not a financial man, and the technical features of the bill I am not prepared to talk about, but I have checked it with those who are supposed to know, and the whole thing seemed to me to be close on what I felt was the answer to the problem which confronts us.

And, gentlemen of the committee, if I can do nothing else but urge you to give real earnest attention to this particular bill, and then translate that interest into action, I feel that you will solve a problem that is more far-reaching than any other problem that confronts us today.

Senator BARKLEY. I did not get clearly what your occupation has been prior to your coming down to Washington.

Mr. EDISON. What my what has been?

Senator BARKLEY. What your occupation has been.

Mr. EDISON. I have been a manufacturer. Mr. Thomas A. Edison was my father, and he went into a lot of different things and built up a rather wide variety of industries, which I have been trying to manage and run as president.

Senator BARKLEY. Oh! You are associated with your father's enterprises.

Mr. EDISON. Yes.

The CHAIRMAN. He is the president of Thomas A. Edison, Inc.

Mr. EDISON. Yes, sir.

Senator ADAMS. Of West Orange, N.J.?

Mr. EDISON. Yes, sir.

The CHAIRMAN. Are there any other questions by members of the committee? [A pause, without response.] We are much obliged to you, Mr. Edison. I believe that is all.

Mr. EDISON. I thank you.

The CHAIRMAN. Is Mr. Eccles here?

Mr. ECCLES. Yes, sir.

The CHAIRMAN. Please come up to the committee table and take a seat opposite the committee reporter. State your name, residence, and occupation, or have you been before the committee previous to this time?

Mr. ECCLES. No, sir.

The CHAIRMAN. Then state your name, residence, and occupation.

STATEMENT OF MARRINER S. ECCLES, ASSISTANT SECRETARY OF THE TREASURY, WASHINGTON, D.C.

Senator BARKLEY. Are you a real "mariner" from Utah?

Mr. ECCLES. Yes, sir; I am from Utah. I do not know that I am a real "mariner"; I am from Utah, however.

Senator BARKLEY. You are so close to the Great Salt Lake that I did not know but what you were a real mariner.

Mr. ECCLES. Well, if this drought continues we might have to become pedestrians instead of mariners.

The CHAIRMAN. Mr. Eccles, you have had to do with a study of the subject involved in this bill, S. 3603, and in the preparation of the bill, I take it.

Mr. ECCLES. Yes, sir.

The CHAIRMAN. Will you tell us about the reasons for it, and how it will work?

Mr. ECCLES. It seems to me the only real problem we have after all is the unemployment problem. Practically every other problem goes back to that problem. And it further seems to me that the reason for unemployment is not because people do not need a mass of things that would add to their comfort, give them their necessities; it is not because they are unwilling to work, the most of them, to secure the things they desire; it does not mean that we live in an economy of scarcity, for we live in fact in an economy of plenty; but there seems to be a lack of getting money into the hands of people who desire to spend it.

Now, that is not because there is any shortage of money. As a matter of fact, we have in our banks today an excess of reserves as required by law of more than 1½ billion dollars.

Senator BARKLEY. That is not actual money, is it?

Mr. ECCLES. Well, it is not money in the sense that it is silver, gold, or currency, but it is credit held by the member banks in the Federal Reserve System.

Senator KEAN. It is credit held in their vaults.

Mr. ECCLES. Yes.

Senator BARKLEY. It is not actual money alone but also credit.

Mr. ECCLES. Yes, sir; money and credit. And that entire volume of reserves, if we could get our credit system to functioning, would act as a basis for at least 15 billion dollars of additional money. Our bank deposits at the present time are approximately 20 billion dollars less than they were in 1929. Bank deposits are created by contraction or expansion of bank credit.

Now, gentlemen of the committee, getting down to the point——

Senator COSTIGAN (interposing). You figure potential credit as on a ratio of 10 to 1 basically, do you?

Mr. ECCLES. Approximately that; yes.

Senator ADAMS. How do you arrive at that figure based on bank deposits?

Mr. ECCLES. That is the way it has operated in the past. That is about the relationship.

Senator KEAN. That is, you mean figured on the dollar in gold.

Senator ADAMS. That is not my understanding.

Senator BARKLEY. And the 10-to-1 proposition is figured on what?

Senator KEAN. It is figured on the dollar in gold.

Mr. ECCLES. No. What I am speaking of is your bank reserves, the excess reserves of the Federal Reserve banks.

Senator KEAN. What is that reserve?

Mr. ECCLES. How do you mean?

Senator KEAN. I mean, what is it?

Mr. ECCLES. Well, it is the credit that the member banks have in the Federal Reserve System.

Senator KEAN. Yes; but what is it? It is credit, and not money, I take it.

Mr. ECCLES. No. It is neither gold, silver, nor currency. Ninety percent of what we do business on is not currency.

Senator KEAN. It is not currency.

Mr. ECCLES. It is check currency; that is what it is.

Senator KEAN. No. They can draw paper money for it.

The CHAIRMAN. Well, let us go on with this bill. If we were to go out into that field of discussion, we would be here a week.

Senator KEAN. Yes; 2 or 3 of them.

Mr. ECCLES. With this excess of reserves we can take care of expansion of credit. The Government has been in the process of budgetary inflation through selling Government securities to banks. That creates expansion of credit. It seems to me desirable to get private credit flowing rather than to have a continuation of Government credit through your budgetary inflation.

Senator KEAN. Do you mean to say that so far the Government has forced the banks to buy United States bonds?

Mr. ECCLES. Well, I do not think there has been any pressure. It seems to me the banks, with these excess funds in hand, in order to get a return on their funds, have found that bonds are about the only avenue available.

Senator KEAN. Well, I can say that I think they have forced the banks to buy them.

Mr. ECCLES. The money the Government borrows has been put out into all the various avenues to give relief and to carry the economic system. The Home Owners' Loan and the Farm Credit Administrations have also provided funds, and the Reconstruction Finance Corporation, in the form of taking up existing credits and substituting instrumentalities of the Government, simply a transfer of debts from where the debts now exist to a Government agency.

The idea back of this program is to induce private lending institutions to take up this credit expansion, to undertake to get people to borrow—but I see that Miss Perkins has come into the room, and I will now give way to her.

The CHAIRMAN. The Secretary of Labor has appeared, and you may stand aside, Mr. Eccles, for, perhaps, she would rather go on now than to wait.

Mr. ECCLES. I will be very glad, indeed, to give way to her.

Secretary PERKINS. Please continue, Mr. Eccles. I would be glad of the opportunity to hear you.

Mr. ECCLES. I will be very glad to give way to you at this time.

Secretary PERKINS. But I would much rather you would continue.

The CHAIRMAN. We can interrupt Mr. Eccles' statement now if you prefer, Madam Secretary.

Secretary PERKINS. I would much rather Mr. Eccles would continue his statement, and then I will be glad to follow him.

The CHAIRMAN. All right, if you prefer, Madam Secretary.

Secretary PERKINS. I will thank you to do that.

The CHAIRMAN. You may continue with your statement, then, Mr. Eccles.

Mr. ECCLES. The banks would be glad to extend credit, as that is the only way they can conduct profitable operations. There is a lack of eligible borrowers, of people who have credit and who are willing to use that credit today. The most of our large companies, representing ownership of the most of our corporate capital, are amply financed and have excess cash reserves. Therefore there is very little need for commercial borrowing, except on the part of some of the smaller companies, many of which have not adequate working capital and would be unable to qualify to meet the credit requirements.

The commercial banks have a very large amount of savings deposits, including the Postal Savings. I understand that the total amount of the savings deposits in the banks, including the Postal Savings, is more than $21,000,000,000. And I understand the Postal Savings banks have something over $8,000,000,000 of that amount. The balance are the time deposits of the commercial banks, held in their savings departments, amounting to more than $13,000,000,000.

As a matter of fact, in 1929 the savings deposits in commercial banks were substantially more than they are now, possibly as much as $18,000,000,000, as there has been some shrinkage of savings in commercial banks.

These funds should go, it seems to me, into the capital market through mortgage lending, go into the housing field. They must either go into that sort of investment or remain idle, for lack of commercial paper, even in 1929, meant that there was not anywhere near adequate use of the funds in our banks. These funds must go into that field or be loaned upon stock-exchange collateral or be used to buy foreign or municipal or Government bonds.

Now, it seems to me it would be far better if we could induce these funds where they are, in these local communities throughout the country, to go directly into the field where most needed, the field of housing, for modernization and repair, and so on.

Senator COUZENS. Mr. Eccles, could you describe for us that field? I have been listening to these hearings now for nearly a week and have not been able to get a description of the field said to be available for these funds.

Mr. ECCLES. In just what way do you mean?

Senator COUZENS. You are talking about a field all the time and I should like a description of the field you are talking about.

Mr. ECCLES. Well, it seems to me that for 4 or 5 years of the depression, from information that others have given to me, and I admit I have not checked up the statistical requirements, but Mr. Hopkins and others have testified as to that, of the actual need of repair and modernization of homes; that after 4 years of deflation and depression it is estimated there is a great potential demand for repair and modernization.

Senator BARKLEY. And even "the field" has not got a very good fence around it, I take it.

Mr. ECCLES. That is right.

Senator COUZENS. What do you mean by "the field"; and I am not trying to be facetious but am trying to find out the class or group of our citizens which constitutes the field that would use these funds.

Mr. ECCLES. Well, I think the use for these funds is in practically the case of every class of our citizens, except those who have ample funds of their own. It applies to the average working person throughout this country who has a home. It is a crime to keep that home in a state of disrepair, to have to occupy that home in that condition. And today there is no facility whatever for borrowing funds on a reasonable basis over any period of time in order to make repairs, for modernizing, for replacement of homes, or any real property.

Senator COUZENS. Let me be a little more explicit: Would you include in that field some 10 million unemployed now?

Mr. ECCLES. No.

Senator COUZENS. Would you include in that field those who are working only 3 or 4 days a week?

Mr. ECCLES. It might depend upon what other members of the family were doing. It would depend upon what their income was. It would depend on whether they might have some other property. It would be a question of taking a statement and finding out about their ability to pay, over a period of the next 5 years, by making small payments.

Senator ADAMS. That is, conceding the desirability of this modernization plan, and conceding the existence of excess reserves in

the banks, you feel confident that the bank reserves are a proper source to go to in order to make these personal long-term investments, in spite of the experience of the banks in the last few years by reason of long-time investments, by reason of real-estate loans, which has brought a good many banks to ruin.

Mr. ECCLES. I should like to answer that question in this way: That the only place where savings funds—and I am speaking of savings or time funds of commercial banks—can go and should go, it seems to me, is into long-term investments. As a matter of fact, there isn't available, and never was available, and I doubt if there ever will be available, sufficient commercial paper to absorb or use the bank deposits.

Senator ADAMS. You know from your experience in the Treasury Department that long-term investments were those assumed to be basic, to constitute secondary reserves, and were, in the case of conservative banks, the cause of their trouble, because they had a shrinkage in market price.

Mr. ECCLES. There is no liquidity except in the case of paper that is eligible for Federal Reserve banks, where you can get funds upon it and Government bonds. Other securities or investments in a depression cease to have liquidity. As to your triple-A, double-A, or A bonds, at a time of depression the market for them gets so low that banks cannot possibly sell them without becoming bankrupt. The only reason that Government bonds, the only reason that commercial paper, is liquid is not because it can be sold or because commercial paper can be collected but is because the Federal Reserve will give bank funds for that type of paper.

Senator KEAN. In other words, the only reason that you can get anything on Government bonds is because we passed a law that the Federal Reserve should take those bonds and give cash to banks for them.

Mr. ECCLES. That is right, and that is the only reason you can get funds for commercial paper.

The CHAIRMAN. Let us take this situation: You say there is ample capital in these financial institutions if the people would employ the funds, that the banks all have funds, that the Postal Savings and the banks themselves have ample funds. If that is so, why don't they supply this need and fill this field that you speak about? The answer to that question, the field, I think I can understand, but the other question has to be answered first: Why cannot these people get their accommodation from these institutions that have ample funds? In the next place, how does this bill untie that situation?

Mr. ECCLES. The reason why they cannot get funds for modernization, which is the first part of the program, from institutions is because the banks will not assume the risk involved.

Senator KEAN. Isn't it also true that no national bank examiner will allow a national bank to make that kind of loan without writing it off?

Mr. ECCLES. A national bank examiner very likely would, because an unsecured loan of that sort——

Senator KEAN (interposing). No; I mean a secured loan.

Mr. ECCLES (continuing). Not without this insurance program. The insurance program is to insure the bank against loss, to give

a bank some reasonable assurance against loss at least, and to that end induce banks to cooperate through lending upon this type of paper.

Senator BARKLEY. Haven't you got to do something to lift from the lender the lack of confidence in the borrower, and to lift from the borrower a lack of confidence in himself, in order to loosen up this jam?

Mr. ECCLES. Well, I think today there is quite a demand for funds that cannot be secured. And I believe that through a national campaign, and I do not mean high-pressure selling, but through a national campaign of education, that should be carried out in connection with this program, to let people know that funds are available for this sort of thing on a reasonable basis and over a period of time, would induce a great many people to take advantage of that credit. And it would also induce other people, who have some of these savings funds and other funds, to possibly start their funds into circulation because of the general movement instituted. It is a sort of priming of the thing that we are trying to get started.

Senator BARKLEY. If the priming works will it not be true that prior to the amount of the obligation taken on by the Government, or during that time, there would be benefits larger in proportion than any other activity we have undertaken so far in this depression.

Mr. ECCLES. I think so. The amount being made available here by the Government is $200,000,000. That is for the purpose of insuring these receivables up to 20 percent of the total of the receivables held by any one institution; not 20 percent of any one receivable, which would mean nothing because the law of averages would not apply, but 20 percent of the receivables made in conformity with this program by any one institution.

Now, if that $200,000,000 results in inducing a billion dollars to be employed, that would be sufficient to bring relief, and it is thought that $200,000,000 would induce the balance of a billion dollars of receivables to be employed; that that would be a sufficient amount on the part of the Government to get a billion dollars out, and the Government would be the better off to the extent of $800,000,000, because that $800,000,000 being put out means it will create that much labor, put that much money into circulation that would otherwise not get into circulation. It is better than putting out a billion dollars directly, for instance, for other works or for other means, and it will lessen the load by this $200,000,000 inducing $800,000,000 more to come out. It seems to me it would tend to encourage, therefore, the use of a billion dollars.

I do not think there is any possibility of the 20-percent loss. As a matter of fact, the experience with consumer credit would indicate it would not be anywhere near that percentage. Of course, this would be unsecured credit.

Senator BULKLEY. Is it practicable to secure these loans by any kind of lien on the work done?

Mr. ECCLES. No.

Senator BULKLEY. It would be based on the character and the earning capacity of the borrower, would it?

Mr. ECCLES. I think an attempt to take security, involving the preparation and filing of papers, in connection with small loans of

this sort would make them prohibitive and would discourage the use of such funds.

Senator BULKLEY. If you are going to base a loan on the character and the earning power of the borrower, would you be willing to make him a loan for such purpose as he might want, for any purpose he might want to borrow it for, or would you confine it to one purpose?

Mr. ECCLES. The purpose is confined to modernization and repair of homes.

Senator BULKLEY. Why?

Mr. ECCLES. Well, for the very reason that you have there people who own real estate, real property, of a type that is tied largely to the community. I mean that you can extend credit on such properties in such a case.

Senator BULKLEY. Suppose you were to extend it only to those who own real property; would you then loan it to them for such purpose as the borrower would like to use it for?

Mr. ECCLES. I think not.

Senator BULKLEY. Why not?

Mr. ECCLES. Well, for the very reason that it would be very difficut to make standards and regulations to cover the entire field of consumer credit. In the case of people borrowing money for the purchase of automobiles and various equipment, there is credit today on title-retaining types of paper. We are creating here an instrument that would apply to the home, where there is no credit facility.

Senator KEAN. Yes; but the other people pay installments on their automobiles and might default on their mortgage.

The CHAIRMAN. These would be all amortized loans, as I understand.

Mr. ECCLES. Yes. These would be all amortized loans, monthly or quarterly, except in the case of agriculture, where they can be made annually.

The CHAIRMAN. Very well. You may go ahead with your statement.

Mr. ECCLES. Now, without going into the details of the plan back of it—and I could go into the details because I am quite familiar with the whole thing, and have personally studied it very closely, and have spent a good deal of time in connection with the development of the plan—but the thing means——

Senator COUZENS (interposing). These loans, as I understand, in regard to the question propounded by Senator Bulkley, would not be for the purpose of paying taxes or of paying interest on a mortgage.

Mr. ECCLES. No, sir. The money must be used for the purpose of improving or repairing real property. It does not necessarily need to be a home. A person might own a small business property, or might own a small apartment, or anything of that sort, and he could borrow money up to $2,000. That is the limit. It is our belief that a very substantial amount of funds will be used toward improving property other than homes.

Senator BARKLEY. If you left the thing open, if you made no restriction with reference to the use of this money, it is entirely possible that some borrower would spend it for a purpose that would

not create employment. And that is the main object of this legislation, isn't it?

Mr. ECCLES. Many of them might so use it. By reason of having pressing obligations, such as taxes or other delinquencies, and they might attempt to use it for that purpose. We want to stop that, the further deflation which such use might amount to. If we can get sufficient money flowing through spending we will get the credit inflation needed, and then debts will become easier to meet.

Senator BULKLEY. Couldn't you stipulate that the borrower would not use it to pay a debt?

Mr. ECCLES. It would be pretty hard to follow it. I think the best way is that when you lend the money you will have evidence that it is going into improvements. You have the contractor who certifies to it. In fact, in the plan you approve of the purpose. The funds go out, of course, before the work is started, but the modus operandi of the plan would contemplate a complete report and a schedule and a contract as to just what is to be done, and the bank makes the commitment.

Senator COUZENS. Have you made any estimate of the number of employees necessary to administer this act?

Mr. ECCLES. No; we have not, but it should be a comparatively small amount in number, confined almost entirely to Washington. You would deal directly with the lending institutions. The lending institutions would apply for the right to lend under this program. They would be given their rules and regulations and instructions, forms, and so forth. Then only would the Government agency be affected. The lending institution would report weekly, we will say, the number of loans they have committed themselves for, and then the class and names of persons, so as to identify them. And only those that get into default and as they were finally called back to the Government, would the Government ever have to check up. So that if there was a 10-percent shrinkage and 90 percent were paid, the Government would not be called on in any way.

Senator KEAN. You are going to make the banks do this work?

Mr. ECCLES. Well, any lending institution.

Senator KEAN. How are you going to make the banks cooperate? Must they keep books and make a report weekly?

Mr. ECCLES. The banks should report; otherwise there would be no way of knowing what the total volume of business was and the number of loans. I think statistical data are necessary.

Senator KEAN. So that they would have to make up a statement weekly and send it in.

Senator BARKLEY. That would be just a summation.

Mr. ECCLES. That would be a recapitulation.

Senator KEAN. That means that the bank would have to have a clerk for that purpose. And that is what I am getting at, the expense.

Mr. ECCLES. The banks already have an excess of help, an excess of facilities for the volume of business they are doing.

Senator BARKLEY. They would use a great many clerks if they loaned a lot of money.

Mr. ECCLES. The idea is——

Senator KEAN (interposing). I mean that here is proposed an extra charge on banks, and that banks must make enough to pay that expense. That is what I am getting at.

Senator BARKLEY. If they do not make any loans, they won't have to make any reports, and if they make loans, they will need a clerk.

Mr. ECCLES. Most banks have an excess of personnel, an excess of facilities today for the business they are doing.

Senator KEAN. That is true. But I merely wanted that point cleared up.

Senator BARKLEY. Would there be any material difference in the procedure of a man making a loan under this plan than the procedure he goes through now in borrowing from a building and loan association or a bank or any other lending institution?

Mr. ECCLES. He would go into an institution to borrow the money. That is, there would be a local committee in the community that would be created in connection with this drive; there should be possibly an administrator appointed to conduct a national campaign for modernization and repair, perhaps not only for modernization and repair coming into this category but also in order to induce people with funds and who do not need to use the credit, to put their money into these channels. Also in the case of business institutions, many of our large business institutions, such as railroads, factories, and others, have deferred maintenance. If they could all be brought into undertaking today their repair work it would be beneficial, and that would be the thought, of having a campaign or a drive to help accomplish that purpose.

Senator BARKLEY. Has anybody made an estimate that could be regarded as approximately accurate of the number of unemployed who might be reemployed if this plan is successful?

Mr. ECCLES. I do not know that they have. Of course, that would depend entirely upon the volume of funds put out and the time in which they are put out. There is the question of volume as well as the question of time. In other words, if we can get a billion dollars out over a period of 2 years it would not cause reemployment as quickly as if we were to get a billion dollars out within 6 months. I think the question of time is very important, that it is very important to get this money out rapidly if it is possible to do so.

Senator COUZENS. Is there going to be a drive to reduce the cost of this work?

Mr. ECCLES. Yes, sir. As I understand it there is a committee now working with the N.R.A. people with the idea of inducing the industries that are engaged in heavy construction of all kinds, to reduce costs.

Senator COUZENS. Does that include a drive to reduce wages also in the building industry?

Mr. ECCLES. Well, I would think that where wages have been substantially increased, or where wages are in excess of, we will say, those of 1929, that your whole cost of construction must come down, below your 1929 figures, with reference to where they have got today, if we expect to get any great volume of reemployment.

Senator COUZENS. So there will be a drive, as I understand your answer, to cut wages of plumbers and carpenters and bricklayers and all of those engaged in the construction business.

Mr. ECCLES. No. I would not say that there would be a drive to cut wages. As a matter of fact, I do not know just how they compare, just how wages vary, but they do vary very greatly throughout the country.

Senator BULKLEY. Will there be any stipulation that these jobs shall all be done by union labor?

Mr. ECCLES. No, sir. As a matter of fact, in every community the person making the improvement will make his own arrangements for labor. They won't go ahead with the job unless they can employ their labor and arrange with their contractor for the job at a price that they feel is reasonable, a price they are willing to pay. The Government in no way enters directly into the problem of lending this money. The Government is not lending the money at all. It is simply attempting to induce lending. And the individual who borrows money——

Senator BULKLEY (interposing). It is going further than that. It is directing the purpose for which the money is to be used, as I understand the bill.

Mr. ECCLES. Yes.

Senator BARKLEY. But it won't go far enough to direct the home owner whom he shall employ.

Mr. ECCLES. No, sir; not whom he will employ, nor where he will get the money or buy the materials.

The CHAIRMAN. That is a matter that is to be settled in the course of the operation.

Mr. ECCLES. Yes, sir. And it varies very much in different sections of the country.

The CHAIRMAN. To what extent will the Government be obligated or involved under this plan? It is to put up a capital of $200,000,000, and that comes out of the Treasury, as I understand it.

Mr. ECCLES. The $200,000,000 comes out of the Treasury. That matter has been taken up with Mr. Douglas and with the Secretary of the Treasury and also with the President.

The CHAIRMAN. Is there a possibility of further obligation being incurred there?

Mr. ECCLES. What was your question?

The CHAIRMAN. I say, is there a possibility of further obligation on the Government, or further drain on the Treasury?

Mr. ECCLES. No. The 200 million dollars will be available as and when needed. As a matter of fact, it has got to be appropriated now, of course, if the bill is enacted, or at least has to be authorized now. It would be appropriated as it might be needed, and would only be needed over a period of 5 years as losses developed. That 200 million dollars is the maximum if the full 20 percent were lost, which is not conceivable, because any lending institution has to lean upon how far it can go. Therefore, they will be reasonably careful and will be restricted in the matter of credits. They would say: We will go just down to this point, because if we go below that we will lose more than 20 percent. So that 200 million dollars is the maximum amount involved, outside of the insurance of mortgages, which is another set-up of the program and which would come in slower and would come in later for new construction.

It would provide long-term funds at low interest rates. And in that connection the Treasury would be affected to the extent of

a billion dollars of loans made on old properties. If every loan that was made were foreclosed and the losses on properties were 100 percent, the debentures which they would issue on properties covered by those foreclosed loans—well, it may be I can explain it better in this way: The insurance of mortgages plan contemplates that the borrower will pay the insurance premium, which will run from one half of one percent, depending upon the percentage of loan made, that is, whether it is a 50-percent loan, a 60-percent loan, a 70-percent loan, or an 80-percent loan, because of variations and the reasons involved.

Senator KEAN. It is 2 percent for insurance, as I understand it.

Mr. ECCLES. No. It is from one half to 1 per centum.

Senator KEAN. I think it is different here in the bill.

Senator COUZENS. No. The testimony is up to 1 percent.

Senator BARKLEY. Yes; not over 1 percent.

Mr. ECCLES. From one half of 1 percent to 1 percent. That fund would be paid into this insurance fund. There was worked out some actuarial figures on that which showed that if 25 percent of the homes were foreclosed upon, and this insurance company——

Senator COUZENS (interposing). Are you now talking about new homes?

Mr. ECCLES. Yes. The $200,000,000 is for them. That is the limit on them. Now, I am talking about insurance of mortgages, which is for new homes. This other does not involve mortgages.

Senator COUZENS. When you talk about a billion dollars you mean that is for new homes?

Mr. ECCLES. That is right.

Senator COUZENS. Is it contemplated to loan to contractors to build a series of homes in order to have homes to sell on the installment plan?

Mr. ECCLES. No, sir; it is not. It is for home owners.

Senator COUZENS. Only for individual home owners?

Mr. ECCLES. That is right. That is what is contemplated.

The CHAIRMAN. You may proceed with your statement.

Mr. ECCLES. Actuarial figures would show that the insurance premium which is paid by the borrowers over the life of the mortgage should be sufficiently big to meet any possible loss as a result of foreclosures. So that in that case there would be no cost to the Government whatever. In the issuance of debentures——

Senator ADAMS (interposing). But the Government does assume a 100-percent liability. There is the insurable liability there which you assume will be met by assessments.

Mr. ECCLES. Yes; but only in this way: Only in case properties are foreclosed. When a property is foreclosed, and if it is taken over by the insurance company, it has to issue to the holder of the mortgage a debenture of the insurance company bearing interest at 3 percent and guaranteed by the Government and due 3 years after the mortgage.

Senator ADAMS. That is not in the bill. That is the plan as it has been worked out under the authorization contained in the bill, as I understand it.

Mr. ECCLES. Yes. Now, the limitation of the debentures that can be issued as contained in the bill, I think, is 1937, so that the only

liability that could accrue there would be for such debentures as might be issued against properties that were guaranteed from now until that period and which would be foreclosed upon.

Senator COUZENS. Have you made any estimate of the cost to the borrower? As I recall the various estimates given here, they have been from 9 to 11 percent.

Mr. ECCLES. In the case of the modernization receivables from $100 up to $2,000—and if a $2,000 loan is made and it runs for a period of 5 years, the entire cost would be slightly less than 6 percent. In the case of a loan, we will say, of $200, payable in a period of 1 year, the cost, as I recall, is up to somewhere around 10 percent. But the average cost, assuming the average period is a 3-year period, with the average loan, would be somewhere between 7 and 8 percent. It is about one half of the cost of any consumer-installment financing available today.

Senator COUZENS. That does not include the 3-percent amortization.

Mr. ECCLES. Well, the 3-percent amortization does not apply on these receivables. That applies on the long-term 20-year mortgages for new construction. That is in the second plan.

Senator KEAN. Who do you think can loan this money?

Mr. ECCLES. How is that?

Senator KEAN. You say the banks will?

Mr. ECCLES. The bill provides for a modification of the National Bank Act to permit banks to loan on insured mortgages as they are now permitted to loan for 5 years up to 50 percent on first mortgages. Banks today are now permitted to loan not to exceed 50 per centum for a period of 5 years on first mortgages.

Senator ADAMS. There is also a limitation upon the reserves that can be loaned.

Mr. ECCLES. Yes; 50 percent of the savings. This does not change that. It only permits an insured mortgage in lieu of the present mortgage, which of course is a much better instrument I think for a bank to carry. As a banker I would say it is a far better instrument than the mortgage they have today.

Senator BARKLEY. We might ask Mr. Eccles questions from now until we adjourn, but I suggest that we hear Miss Perkins, and then if we want to ask Mr. Eccles any more questions as to the details, we can do so at another session.

Senator COUZENS. Have you stated all you want to state?

Mr. ECCLES. Yes. The building and loan feature of this bill, and other features, I have not mentioned, but they are part of it, and they also open up another channel for this mortgage business.

Senator KEAN. In reply to that, I would like to say for the record here that the building and loan associations cannot loan without security.

Mr. ECCLES. That is very true; but the building and loan insurance would stop the funds from flowing into the banks from the building and loan companies as they collect funds, and would put them in a position where they could enter into the mortgage field, where they belong. Today they are making practically no mortgage loans, and I think that with the insurance program contemplated here as part of this, it would open up that field for making the insured mortgages.

Senator COUZENS. There is just one thing we got switched off on. I understand there is a committee being appointed to reduce the cost of this work to the potential borrowers.

Mr. ECCLES. Yes.

Senator COUZENS. I am still anxious to know what this committee plans to do in the way of reducing the cost to the potential borrowers. In other words, we got switched off. We understood, of course, there was going to be no interference with the manner in which a borrower let his contract, but, as I understand, there is going to be some general guidance from the Government to inform the people as to how they may reduce the cost of this work.

Mr. ECCLES. Yes.

Senator COUZENS. I still am concerned about what their program is going to be.

Mr. ECCLES. The committee that has been working on this whole program, Mr. Walker, Mr. Hopkins, Mr. Fahey, and myself and several others, have realized the necessity of getting costs reduced, and certainly preventing them from going up further as a result of of this increased activity, in order to prevent the borrower from undertaking an uneconomic debt. There are others who have been working on this, Senator. Although I have heard the matter discussed, I would prefer to have Mr. Walker, or possibly Mr. Deane, who has been working with us, and also has been working over at the N.R.A. with Mr. Harriman and Mr. Johnson on the problem, discuss it. He would be better able to give you up-to-date information on that.

Senator COUZENS. I would like to have some information on that, because I am concerned with how you are going to proceed, whether you are going to recommend certain prices for lumber, certain prices for labor, certain prices for brick, certain prices for cement, and so forth. Just how are you going to reduce the price, or the cost to these potential borrowers?

Mr. ECCLES. These various associations have indicated a willingness and a desire to cooperate and to make tenders. What we are anxious to do is to have concerns like Johns-Manville, American Radiator, the lumber people, and the cement people, and others, come in as a part of this thing, and agree to give price concessions during a certain period of this drive, rather than for us to go to them and request that they do it. We feel that it would be better for them to do it, and they have indicated a willingness to do it. I know they are working upon it now with the idea of doing that very thing.

Senator COUZENS. Are they going to bring in the labor unions, too?

Mr. ECCLES. I could not say.

Senator BULKLEY. Are they going to issue any bulletins as to what would be fair prices for labor?

Mr. ECCLES. It would seem to me that the situations vary so greatly in various parts of this country that it would not be possible. The cost of living in the centers of the East is entirely different from the cost in the South and in certain parts of the West. There is a great variation of cost.

Senator BULKLEY. Of course, there could be separate bulletins, but I am asking about the policy, and whether such a thing has been attempted.

Mr. ECCLES. I could not tell you. I do not think that has been discussed or decided.

Senator BARKLEY. I do not think we could work out such details as that at this stage of the proceeding.

Mr. ECCLES. No. It has all been more or less preliminary.

The CHAIRMAN. That will conclude your statement. We can call you again.

Mr. ECCLES. Yes. I am here, and will be glad to come any time.

The CHAIRMAN. We will have the Secretary of Labor now.

STATEMENT OF FRANCES PERKINS, SECRETARY OF LABOR

The CHAIRMAN. Madame Secretary, we will waive the formal questions about your name, age, and place of residence.

Secretary PERKINS. I shall be delighted to tell all if you want me to. [Laughter.]

The CHAIRMAN. We will just begin by saying that the Secretary of Labor is present, and we desire to hear from her.

Secretary PERKINS. Senator, I shall, with your permission, not discuss the aspects of the bill which Mr. Eccles has just discussed, as he is infinitely wiser than am I on the banking and mortgage feasures which are before you. Mr. Eccles is much wiser than I am on the banking arrangements and on the mortgage arrangements which have been made. As you know, the special subcommittee that had the matter in charge did give that matter very great consideration. The part which the Department of Labor played in the work of the subcommittee was merely to canvass the need for this bill, and it is upon that, sir, that I should like to report to you and to your committee this morning.

It seems to me that this is, at the present time, one of the most essential features of the recovery program, for, as you know, there has been a stimulation to private industry due to the Public Works program, the results of which are just beginning to be shown.

You are aware, I am sure, of the unequal character of the reemployment in different types of industry. Whereas there has been a very large reemployment in the industries manufacturing the consumer's goods, the reemployment in what are called the "durable goods industries, the capital goods industries, those industries making materials that go into building construction, has not been by any means so good.

Nevertheless, for the past few months, under the impetus and under the stimulus of the purchasing made necessary by the Public Works program, we have seen a considerable recovery, a considerable reemployment, and a considerable increase in pay rolls in those particular industries. They are, however, as we must admit, very largely the result of the purchases which have been stimulated all down the line, and it is extremely important that we maintain employment and increase employment in those manufacturing industries, very largely because of the fact that when we look at the total employment in the United States of America over a period of normal years, we recognize that in the manufacturing industries, in the manufacturing employments, the durable goods industries employ about 60 percent of the total number of people working in manufacturing, so that it is very important that they should have

a rise comparable to the rise in employment that has taken place in the consumer goods industries.

The Public Works program is proceeding in an orderly manner, and I think as rapidly as can be expected. It will reach its peak of employment, so we now believe, its peak of direct employment on public works, sometime in the latter part of August and the first half of September. At that time, if the estimates which we have made are correct—and they are based upon best belief and information only—there should be about 1,000,000 men at work on direct employment on public works. We are approaching that peak. After that there is likely to be a falling off, gradually, but nevertheless a falling off.

Also, as you realize, October is the peak month in private employment in manufacturing. That is true in every year, whether it is a good year or a bad year. October and March are the 2 peak months, with October usually slightly higher than March in the industrial employment and industrial pay rolls. So that we have every reason to believe that August and September will show the peak in direct employment on public works; that October will show the peak in private employment in manufacturing generally, and that we must, therefore, be thinking about the types of employment that will be open to our people during the months that follow October—in November, December, January, and February, until we again reach the swing up, which usually occurs in the spring.

This type of work which is to be stimulated, which it is proposed to stimulate in the way described in this bill, is an extremely important piece of work, not only because if it is carried out consistently and in the way in which we have every reason to believe it will be, it makes it possible to raise the standard of living of a very large part of the community, and it does necessary work in the maintenance of really important capital investments in homes, but because it gives work to exactly the same type of people who have been lacking work for so long a time.

As you know, employment in the building industries was very much depressed. It is almost impossible to measure with any exactitude the amount of employment or unemployment in the building industries, because of the fact that our reports have to come to us from contractors, as to the number of persons employed. As you know, the contracting business is an irregular business. Sometimes firms do not stay in the contracting business. During a boom period there are a very large number of contractors who, after the boom period, go out of the business, so that their reports to us on their number of employees become very irregular. We have not, therefore, for the building trades and the building industries, anything like the same accurate information that we have on manufacturing or other more stable business establishments.

Senator BARKLEY. Do you get reports from the Carpenters Union and other unions as to employment?

Secretary PERKINS. The unions, of course, can give you the number of their members who are employed or unemployed, but you realize that in boom times there are a great many men in the building trades who are not members of those unions, so that to get the full picture you would have to get reports from the employers in the contracting business.

Nevertheless, basing our estimates upon reports made by such contractors as do have a stable business existence, and therefore report their number of employees over periods of years, and based upon reports of the unions in the building trades, we estimate that there are today at least 2,000,000 building-trades workers who are out of work.

This is a very serious matter, because of the fact that the building trades represent highly skilled mechanics, as you know, people who have in good times been well paid, who are accustomed to a high standard of living, and therefore, are ready spenders. The money they earn goes readily into the market in the form of purchasing power, and they, too, begin to buy. So that a plan for the bona fide reemployment of this large pool of unemployment in the building trades is extremely important.

It is also important that we should look forward to stimulation of the reemployment of the people who work in the durable-goods manufacturing enterprises. As a group, we find that employment in durable-goods industries fell from about four and a half million people who were working in the industries known as durable-goods industries, in March 1929, to about 1,900,000 in March 1933. That represents a loss of approximately 2½ million people who were formerly employed in manufacturing in these durable-goods industries.

These are the industries which are largely called upon to supply the needs of the building program, to supply the materials that go into buildings. In the month of April of this year the employment in these durable-goods industries was 2,909,000, showing that there are still 1½ million people who look to employment in these industries who have not been reabsorbed into these industries. They are attached to these industries. They think of themselves as working in these industries. They frequently live in an area where these industries are the only employment to which they can look. So that there are about 1½ million people in the durable-goods industries who still remain to be absorbed.

Senator BARKLEY. That does not include unemployment in the building trades, who use those materials in construction.

Secretary PERKINS. That is correct. That is in addition.

Senator KEAN. How many people do you estimate now are out of employment?

Secretary PERKINS. You have asked a question which no one in America can quite accurately answer.

Senator KEAN. I asked you for an estimate.

Secretary PERKINS. I would be glad to indicate the very great limtations upon the power to make an estimate. We never have known how many people were out of work, in actual number, in this country. We therefore have to estimate from the guesses that were made. As you know, in 1933, estimates as to the number of persons unemployed varied all the way from 8 million to 17½ million, the larger number, 17½ million, being the figure prepared by the Alexander Hamilton Institute, and the 8 million being the figure of the National Industrial Conference Board. Somewhere between those two was the accurate number.

It is a very difficult figure to estimate. Most people have used the figure 13 million without much critical analysis as to whether

it was the correct number or not. But if 13 million be the correct number of persons out of work, then you can estimate something like this: That 2¾ million have gone back to work in private employment; that 350,000 people are now employed in the C.C.C. They are off the unemployment lists and are working in the forests, not at regular employment but at maintenance levels.

Senator KEAN. What I was trying to get at was this: There were so many people out of work in March 1933. Then, there are so many people that you have put to work in public institutions. How does that compare? If you did not have those people, would the same number be out of employment now, or would it be less?

Secretary PERKINS. If we did not have people on Public Works?

Senator KEAN. Yes.

Secretary PERKINS. No; 2,750,000 have returned to work in private manufacturing, and in addition to that 350,000 are at this moment at work on Public Works; 350,000 are in the C.C.C. That is public employment, of course.

Senator KEAN. Yes.

Secretary PERKINS. There is, in addition to that, an inaccurately measured reemployment in agriculture, which is, of course, seasonal, and which, in July of last year, we estimated to be 500,000. It reaches its peak about July, and will this year again be about the same in agriculture.

In addition to that, there is an increase also in employment in what are called the "services", which are also not very accurately measured in this country, because we do not know their numbers. Those are the people engaged in automobile washing, in barber shops, laundries, and that sort of enterprise. It is called, not manufacturing, but service trades of one sort and another. They go up as pay rolls and income go up, because they are services performed for people who are spending their income.

It is fair to say that if there were 13 million out of work in 1933, which was the estimate we made, that has been reduced to somewhere between 8 million and 9 million today, but that is the roughest kind of estimate.

Senator KEAN. There must be at least 2 or 3 million of those people engaged in public works.

Secretary PERKINS. Not in public works direct.

Senator KEAN. In building post offices and buildings of that sort.

Secretary PERKINS. I think the most you could say would be something under 1,000,000.

Senator KEAN. You think it is under 1,000,000?

Secretary PERKINS. In direct employment, yes; because all you can count as being engaged in direct employment on public works are the 350,000 at this moment working in the true Public Works program and the 350,000 in the C.C.C.

Senator BARKLEY. Those two items would make 700,000 taken care of by the Public Works or the C.C.C.

Secretary PERKINS. Yes.

Senator BARKLEY. There is no other item of public employment.

Secretary PERKINS. No other item of public employment. The rest, something under 1 million of them, can be put down to direct public employment. The indirect public employment is not capable

of estimation. There used to be an old formula of 2 to 1—1 in direct, and 2 in indirect—but most of us think that is not correct.

Senator BARKLEY. Even if the indirect is not public employment, it is private employment stimulated by public works.

Secretary PERKINS. That is correct.

I want to make this clear, that such estimates can never be taken as completely reliable. They are just a guide to our thinking on the problem.

The amount of stimulation in the capital-goods industries is, I think, indisputable. The situation in the non-durable-goods industries, the consumer-goods industries, shows a very much better position. There were 4,247,000 workers employed in those industries in March 1929, and they dropped to approximately 3 million in March 1933. The net loss of employment is less than half of that experienced in the durable-goods industries. The drop in the consumer goods was never as much as it was in the durable-goods industries, the consumer goods always showing that picture regularly, by being not so depressed, because people must buy the absolute necessities of life, and the durable-goods industries are the ones that show the greatest fall in all these depressions.

In March 1934, 3,860,000 people were employed in the consumer-goods industries, showing that there were only approximately 400,000 workers in those industries still remaining to be absorbed into the consumer-goods industries, if we think of the March 1929 level as the appropriate level, so that the durable-goods industries are those which are at present most depressed, and the industries that most need stimulation.

Senator BARKLEY. What is the percentage of activity at present in the durable-goods industries?

Secretary PERKINS. At present there is a great revival of activity in the durable-goods industries over the last few months, so that if you have read the releases which the Department of Labor has given out, you have seen figures like 8-percent increase in this trade, 10 percent in that, and 12 percent in the other, in employment. But I always feel that we should call attention to the fact that the percentage is great because of the fact that the depression was so low. They were increases above a very low level of employment, so that the addition of a few thousand workers made a high percentage of increase. But there has been a very great increase in the last few months. For instance, the employment in the cast-iron-pipe industry has increased by 62 percent between April 1933 and April 1934.

Senator KEAN. But they were making no pipe.

Secretary PERKINS. They were making no pipe. That is why the percentage is so great. They were practically closed down. In the forging industry there has been a 90-percent increase in employment. There, again, the situation was true. They had come from a very low level of employment, but this stimulation has followed the Public Works.

Senator BARKLEY. I had in mind not so much the increase, but the average activity at present, including the increase and the base upon which it was made. Somebody testified the other day that the durable-goods indusries were now active only at about 10 percent of their capacity. Would you say that that is correct?

Secretary PERKINS. I would not be able to measure that exactly on capacity of production, because we are not familiar with those items. I have forgotten the figure for the increase in employment in the durable-goods industries. The total manufacturing index has gone up from 55 to 82. Employment in the durable-goods industries has been much below the average, so that the index for the durable-goods industries does not show the same percentage of increase. We can give you that figure in a minute. We will furnish you the index for the durable-goods industries as separated from the nondurable-goods industries. But these indexes of employment in the building-supply industries are indicative of the extent to which they have gone up in the last few months under the stimulus of Public Works buying.

Senator KEAN. The increase in the cast-iron-pipe industry, of course, is almost entirely due to Public Works.

Secretary PERKINS. Still, there are today only about 50 percent of the people who were employed in 1929 in cast-iron pipe employed today, although it has shown that 62-percent increase in employment over a year ago.

Senator COUZENS. Why do you use 1929 as a base? I think there were a great many unemployed in the fall of 1929.

Secretary PERKINS. We use March. This figure is for March 1929. As a matter of fact, I think we should explain that in the building trades, as you know, the height of the boom was reached in March 1929. The height of the building boom was reached in March 1929, and there began to be a falling off in employment in the building trades and a commensurate falling off in employment in the material-supply trades at just about that time. The building trades and the industries that supply them were falling off all through the year 1929, beginning in March, and they did not show their usual fall pick up.

There was rather low employment in the building trades all through the summer of 1929. There is no particular reason for using that, sir, except that it was the peak point—not necessarily as the normal level, but as a measure of the degree of unemployment, it seemed wise to refer to that particular thing.

Senator BANKHEAD. In March 1929, or, we will say, in normal times, what is the proportion between the number employed in the durable-goods industries and the number employed in the consumer-goods industries?

Secretary PERKINS. In normal times?

Senator BANKHEAD. Yes. Is it relatively the same?

Secretary PERKINS. No; there are considerably more in the durable goods. The durable goods, you see, are of such a nature that they require more manpower; that is, there are more man-hours employed on durable goods than on consumer goods. Also the durable-goods industries are a steadier form of employment.

Senator COUZENS. Did you not testify that it was about 60 percent a while ago?

Secretary PERKINS. Yes; about 60 percent ordinarily.

The reasons, therefore, for pressing for a measure of this sort at this time, it seems to me, are clear. Not only the revival of our important industries may depend upon this stimulation, but the

actual employment of a considerable number of our people through another year will relate very largely to such programs as these. This is a practical problem because of the fact that it provides a kind of activity the results of which are much needed in the development of our social life and in the development of our improved standards of living.

I am told that there is a very great potential market for the kind of repairs and renovation which are contemplated in these programs. When I say a potential market, I recognize of course, that the peak of the market will not be reached until people have wages and income flowing to them again. There are many people who would like to put a heating plant in their houses, who will not do so until they themselves have regular and steady wages.

Senator COUZENS. You heard me ask Mr. Eccles if he could amplify the field that was to use these credit facilities. Have you any information to amplify Mr. Eccles' answer to that question?

Secretary PERKINS. I am afraid I did not hear his answer very completely. There was a trolley car passing by at the time. The field, as I understand it, is almost unlimited. It is the repair and renovation, first, of homes, and later of such other business enterprises as need this kind of stimulation, but principally homes and housing.

Senator COUZENS. What particular group of our citizens will avail themselves of these borrowing facilities?

Secretary PERKINS. I suppose the home owners will begin——

Senator COUZENS. But what is the home owner's source of income to pay off these debts, and what particular group of home owners will avail themselves of these borrowing facilities? Mr. Eccles testified that it would not include the 10 million estimated unemployed. I asked him the question whether it would include those who were working 2 or 3 days a week, and he did not seem to know. I wondered if your studies indicated just what activities these groups would be engaged in to justify the loans, and how they would be proposed to be repaid.

Secretary PERKINS. I have not gone at all into the matter of the loans or how they will be granted, or the classes of people who will find these loans accessible.

Senator COUZENS. You do not know the field at all.

Secretary PERKINS. I do not know the field, but I am told by those who know that field that there is a great potential market for this kind of thing. Certainly there is a great lack of facilities in many homes.

Senator BARKLEY. The field would be broadened as men go back to work under any assurance of permanency.

Secretary PERKINS. Even for brief periods of time. There are many homes, of course, where the roofs are leaking and the chimneys are out of order.

Senator BARKLEY. Many home owners who are without work may have had a little savings upon which they have been subsisting. If they got work for a temporary period—for 6 months, say—they might be able to put on a new roof or paint the house or something like that.

Senator COUZENS. Yes; but they would not be able to pay off the debt. I recognize what the Senator says so far as current income is

concerned, but I am still stalled up against a stone wall as to the stability of the income of these persons who are expected to pay off these $200 to $2,000 loans. The mere temporary employment afforded by this modernization will not insure the worker any stability of income adequate to pay off these loans, even though he is inclined to borrow.

Secretary PERKINS. I realize that that is a very valid doubt, Senator, and I think it ought to be discussed by others than myself. However, I do feel that it is worth pointing out that such market as we have—and we have developed a very considerable internal market in American life in the last year, as is shown by the retail sales reported by department stores, chain stores, and mail-order houses, who report a very great increase in sales—such market as we have has been built up largely by stimulated increments to individual incomes due to temporary reemployment, partial reemployment, and small increments of income going to our farmers. It seems to be quite clear that that has at once translated itself into purchasing power. They have spent, in other words, for the necessities of life, the moneys that they got in the pay envelop and in the farm allotments, and the result has been an internal market which has been sufficient to support, right up to this time, this very considerable increase in manufacturing which we have seen in 1 year. That in itself, I think, is an indication of what we might expect if we could put another million men to work at some type of opportunity which gives them employment for even a few months. A very considerable part of that will go back into the market at once, and they themselves will be a part of the cause for painting houses, mending chimneys, repairing roofs, putting in new heating plants, and all that sort of thing.

Senator KEAN. Yes; but is it not true that on the 1st of January last year there was not a storekeeper that had anything in his store at all, and therefore when he had to order stuff, and when he began to order stuff, he found everybody else was ordering stuff, and that these notes or credits came due in August, and that he had a lot of goods ordered, and he had some difficulty in financing them in August. There was a little slump in August. But still the business of today is not what it was last August.

Secretary PERKINS. The business of today, in retail sales, is greater than it was last August.

Senator KEAN. Is it?

Secretary PERKINS. Yes. It has been going up the last few months. There has been a continual increase.

Senator KEAN. There was quite a drop after August.

Secretary PERKINS. There was a short period there where there was a slight slump, because, apparently, of a peculiar price situation that developed a little ahead of the total wage levels; but since that time a very considerable number of the people who went to work are still at work, and with every month that they are at work their ability to spend largely continued, and we have had 3 months more of increased employment.

Senator BYRNES. Would you be impressed with this idea of "keeping up with the Joneses"? For instance, if Mrs. Jones improves her home, Mrs. Smith, in the next house, would desire to do

it, and not only that, but as people learned of the activity they would conclude that the demand for materials would cause an increase in prices, and a large number of people who really have the money today but who have been hesitating to have work done would decide that it would be wise to have it done now, because otherwise there would be an increase in prices of goods.

Secretary PERKINS. I am told that there is a very large amount of money held by people who can well afford to spend it on repairs, that would go into it if they felt they were getting the dead low price of all time, for the wing they want to build on the house, or the porch they want to put on, or the bathroom they want to add.

Also I am told that there are people who can afford to build, but who have not the cash, but who are really good risks. They have had difficulty at times in securing appropriate loans from their banks. I was told the other day by a man who is a reputable man in his community that he wanted to borrow $3,000 from his bank to build a small cottage on his place which he was going to rent to people who would be permanent residents of the community. He wanted to borrow $3,000, and he took down $6,000 worth of Liberty bonds and said he wanted to make a long-term loan. He was told he could have the money for 90 days and no longer. He had no way of getting the $3,000 back in 90 days. This man was amply able to afford to build. His underlying fortune was enough, but his money income was a little low. He did not want to pay it out regularly, but he wanted to build this house.

Senator BYRNES. There is no place where you can borrow it today.

Secretary PERKINS. I think there is more of that than we realize, and if it could be released we would find a very substantial amount of building going on, which would at once have the effect in some localities of creating just the thing you suggest, Senator, the desire of others who had not thought of it to paint their house, or build a porch, or make the internal changes necessary.

I have here some figures on the indexes. Did you ask for that, Senator Kean, or was it Senator Couzens?

Senator KEAN. Senator Couzens.

Secretary PERKINS. He asked for the indexes on the durable-goods industries.

Senator BARKLEY. I asked for that.

Secretary PERKINS. We have not had them separate from the nondurable goods, but here they are for the supply industries:

For the stone, clay, and glass industry, the present index of employment is 55.3; for brick, the present index of employment is 30.5; for cement, the present index of employment is 48; for marble, the present index of employment is 32.3; for nonferrous metals the present index is 76.9; for lumber and allied products, the present index is 49.4; for iron and steel, the present index is 72.6; for machinery, the present index is 80.3; for transportation equipment, the present index is 99.1. These are usually called the durable-goods industry, and they vary very much.

Senator KEAN. Have you compared those with the indexes for Great Britain?

Secretary PERKINS. No; I have not. This is for employment, not for production, Senator.

Senator BARKLEY. I am reminded that the 10 percent I referred to awhile ago is because of the fact that 90 percent of carpenters, plumbers, and those who would build houses are now out of work. It is not exactly durable goods, but it is related to it.

Is there any estimate you could hazard as to the number of men who might be reemployed if this program is reasonably successful?

Secretary PERKINS. If it is reasonably successful, that is, if $1,000,000,000 of work, we will say, is developed, I think you might well expect over 1,000,000 men in the building trades themselves to be reemployed.

Senator KEAN. I thought you figured 200,000.

Secretary PERKINS. In the building trades?

Senator KEAN. Yes.

Secretary PERKINS. I think you will get more than that, because I think $1,000,000,000 is a very low estimate for what will be the result of this. I think in the building and allied trades, the durable goods and supply trades, you may get as much as 1,000,000 men all told—not all at one time, Senator. In the building trades you do not get all your people employed the same day. You get the common laborers in 1 week. You get the carpenters at another time, and the stone masons at another time. But over a period of 6 months to a year—from 6 to 9 months, when this program would be in effect—I think that as many as 1,000,000 men might get work for longer or shorter periods of time, both in the building trades and in the supply trades that are allied to them.

Senator BARKLEY. There would be a reflection of that in the consumers' employment.

Secretary PERKINS. There would be a large increase reflected in consumer goods by their purchasing power. This would be scattered. You would probably get 200,000 at the peak, but it would be scattered over a period of time.

The building trades serve a great variety of people. Nobody ever gets a permanent job in building trades. A few weeks or a few months is the most he gets.

The CHAIRMAN. How does the cost of living now compare with the cost of living in March 1933?

Secretary PERKINS. There has been an increase in the price of food of about 16 percent. There has been an increase in the price of clothing of something under 25 percent—21 or 22 percent. There has, however, been a decrease in rents in some places.

Senator KEAN. Not in Washington.

Secretary PERKINS. Washington does not make much of a dent on the total figures for the country.

Senator BYRNES. It is true generally throughout the country that there has been a decrease in rents.

Secretary PERKINS. That is true in the larger centers. We have here, of course, a peculiar demand upon housing.

Senator KEAN. In the District Committee we made a comparison of the cost by cities—New York, Philadelphia, Richmond, Baltimore, San Francisco, Seattle, and so forth. We made a comparison of the cost of rents there as compared with Washington, and we found that the cost of rent here was higher than it was in any of those cities.

Secretary PERKINS. I dare say that is correct, sir; but there has been, on the whole, a decrease in rents. Also these services for which everybody has to pay, such as telephone, transportation, water supply, and all that sort of thing, have either remained stationary or have actually gone down in some cases. There has been either a decrease in those public-utility services or they have remained stationary. So that we have reckoned that the total cost of living has not gone up much more than 10 or 12 percent over the country as a whole. Rent is a very large item, as you know, in a wage earner's budget. It is one of the big items.

The CHAIRMAN. How does that compare with the situation as to wages? Wages have increased about what percent since March 1933?

Secretary PERKINS. When we begin to talk about wages we must recognize the difference between total earnings per capita and wages. Wages are generally thought of as the wage rate. Wage rates have not increased, except in the minimum levels. The people who were earning below a subsistence level have had a substantial increase, or a considerable increase in percentage of their actual wages, but when you come to average that out with the average of the higher levels of wages, they have remained stationary since a year ago. Certainly they have not gone up, and probably not gone down. The total increase in actual wages is not very great. There has, however, been a considerable increase in pay rolls. The total amount of the national income going into pay rolls is considerably greater for March 1934 than it was in March 1933. For instance, for every thousand dollars of weekly pay roll paid out in the years 1923, 1924, and 1925, $673 was paid out last month, but a year ago only $376 was being paid out for every $1,000 that had been paid out in pay rolls, as compared with the average period. So that it means that the total amount of money going into pay rolls has had a very great increase, but the actual wages to the individual, except in the lower levels—those that were below or close to the subsistence level—have not increased. There has not been a considerable increase in the actual per capital earnings. Rather, the increase in per capital earnings has been considerable, but it has been very largely confined to those who were in the lower levels. There has been also an increase in the per capita earnings without an increase in the wage rate to those people who were formerly working 2 days a week, and are now working 4 or 5 days a week. There has been no increase in the wage rate, but an increase in the weekly earnings of the individual.

Senator COUZENS. Have you devised any plan whereby, inasmuch as this bill guarantees the money lender, the money borrower may be guaranteed employment?

Secretary PERKINS. I have not devised any such plan. Mr. Eccles may have.

Senator COUZENS. Do you not think that we ought to have an insurance policy for the money borrower as well as the money lender, by assuring him an opportunity to work?

Secretary PERKINS. An insurance policy for the money borrower?

Senator COUZENS. Yes; so that he may be insured a job. In other words, it seems to me that in all the legislation that we have contemplated, and all the legislation that we have enacted, we have attempted to guarantee the money lender. I suppose, by indirection,

we endeavor to get a man a job, but we do not in any way assure him that he is going to have a job for any particular length of time. Yet we guarantee the money lender over a period of 2 or 3 or 10 or 20 years.

Secretary PERKINS. Senator Couzens, if your committee would see fit to entertain a recommendation that you attach a rider to this bill to provide for unemployment insurance, I should be delighted. I think we ought to have a plan of unemployment insurance in this country. I do not want to offer that to you in the sense that I am insisting upon it.

Senator COUZENS. I would like to vote, as a contingency to this bill, that there be, for every loan, an employment insurance policy.

Senator ADAMS. That would encourage borrowing.

Senator KEAN. I will say that every manufacturer ought to set aside so much for dividends, so much to pay interest, and so much to protect his men, and that he ought to build up a fund.

Senator COUZENS. Senator, I did not intend to start any campaign here.

Secretary PERKINS. Since the question has been opened, I might refer you to the Wagner-Lewis bill, which is now before the Congress, a study of which might, perhaps, bring this committee to the support of the bill, so as to get it reported out immediately.

Senator BYRNES. I refer that to the Senator from Michigan for consideration.

The CHAIRMAN. Are there any other questions of the Secretary? If not, we are very much obliged, Madam Secretary.

Secretary PERKINS. Thank you. If you need any further material that my Department can supply, we will be very happy to do so, sir.

The CHAIRMAN. We have two witnesses here whom we would like very much to dispose of today if the Senators will have a little more patience. Mr. Hopkins is here, as well as Mr. Voorhees.

STATEMENT OF HARRY L. HOPKINS, FEDERAL EMERGENCY RELIEF ADMINISTRATOR

The CHAIRMAN. Please state your name, residence, and occupation.

Mr. HOPKINS. Harry L. Hopkins, Federal Emergency Relief Administrator.

My testimony will be very brief, Senator. I should like to refer to four points.

First, the problem of unemployment in relation to the building trades, and relief in relation to workers in the building trades; second, the importance of improved housing in America; third, the importance of moving heavy industries; and fourth, the importance of getting private funds into this recovery picture as well as Government funds.

Miss Perkins has indicated to you that of the total number of unemployed, a much higher percentage of workers in the building trades are unemployed than other workers. Somewhere between one third and one fourth of all the families on relief represent workers in the building trades. That means that of the 4 million to 4½ million families on relief, somewhere between 1 million and 1½ million represent families whose income has come from the building

trades. Probably no group in the community have been as hard hit, and have taken the kind of beating from this depression as have workers in the building trades. That is true in every city in America from coast to coast, and to a very large extent it is still true.

The second point that interests me about this is the possibility of beginning on a great housing program in America, because I think this bill has in it the beginning of a program which will extend for many, many years.

I think that the housing situation in this country is nothing short of a scandal insofar as it concerns workers, especially. Our slum areas, not only in our great cities but in rural America, in my opinion, are unlike any in any of the great civilized countries of the world.

Senator COUZENS. Can you tell us what is responsible for that condition?

Mr. HOPKINS. In my opinion, it is because at the moment private funds have not been able to make a profit out of putting money into homes which would rent for $5, $6, or $7 a month.

Senator COUZENS. Why it is necessary to have homes that rent from $5 to $6 or $7 a month?

Mr. HOPKINS. Because, with the number of workers in America that earn less than $1,000 or $1,300 a year, that is all they can afford to pay for rent. They cannot afford to pay any more than that.

Senator COUZENS. Are we not starting at the wrong end of it? Should we not get a better income for them?

Mr. HOPKINS. It would be grand if we could, but, on a realistic basis, they have not been getting it in the last 20 years. I think there are some signs that they are going to be getting it.

Senator COUZENS. That is the most encouraging statement I have heard yet. There are signs that they are going to have it.

Mr. HOPKINS. I think there are.

Senator BYRNES. Was not the statement made by the Secretary of Labor that the greater part of the increase in pay rolls was in the lower salaries? I think that statement was correct.

Senator COUZENS. Then, are we not working at cross purposes by establishing Government insurance to lenders and insisting on them maintaining that low level? If we are raising the standards, which I am glad to hear the Secretary say, then why do we have to go along and maintan these $5 or $6 homes that Mr. Hopkins just spoke of?

Senator BYRNES. I assume it is because Mr. Hopkins realizes that they cannot be wiped out in the next few months.

Mr. HOPKINS. This is the beginning of a long-time program. The modernization campaign itself, I believe, will immediately put a great many people to work. I think this should be said—and I want to avoid any overstatement in this. I think it would be a great mistake if we should set up a piece of machinery here which would enable home owners to borrow money when those home owners have no business borrowing money. I am sure there is no thought in the mind of anybody to encourage people who have no business to borrow, to borrow.

Senator KEAN. And get into debt for something that they cannot pay.

Mr. HOPKINS. But bear this in mind. Of the total number of unemployed, the ratio of home owners who are unemployed is not the

same ratio as the ratio of the unemployed throughout the country. Of the 4 million families on the relief rolls in the United States, only between 5 and 10 percent of them are home owners, so that you will find a much lower percentage of the unemployed amongst home owners than you will find among other groups.

I am convinced that there are plenty of home owners who should not be permitted to borrow this money under any circumstances, and I do not think it is the thought of anyone that they should be permitted to do it. On the other hand, I am equally convinced that there are tens of thousands of home owners who, if the facilities are afforded, and a cheap interest rate is provided, will borrow money on things that are really socially useful, such as repairs on houses, and I believe even in the next few months there will be a modest beginning in the building of new homes if this bill passes.

The CHAIRMAN. I am inclined to agree with you there, but the wonder, to my mind, is why they cannot get that money outside of this agency.

Mr. HOPKINS. The banks will not lend it.

The CHAIRMAN. The money is there.

Senator KEAN. The banks will not lend it.

The CHAIRMAN. But private individuals might.

Senator BARKLEY. The banks will not, and the building and loan associations cannot. They have not got it.

Senator KEAN. They cannot, but the banks have it, and the banks would lend it, but they cannot as long as the bank examiner comes in there and says "Throw that out."

Senator COUZENS. Perhaps this will lead to the nationalization of banks, and that will relieve the situation.

Senator KEAN. It might do that.

Mr. HOPKINS. I got my points mixed up there. The second point was the importance of getting the heavy industries going, but Miss Perkins covered that, and I see no reason why I should do it.

I do not want to make overstatements as to how many men this will put back to work. I think if it gave 500,000 men jobs, if it produced $1,000,000,000 worth of repair work in this modernization campaign, that end of the thing would be well worth doing. I believe it will do that, substantially, and I think the Congress must assume that the Government and executive side will use every precaution to see that people are not encouraged to borrow this money when they do not need it.

Senator BARKLEY. I have had this reaction to this proposition so far. I do not know that I can prove it. I might be called on to prove it if I stated it, but, compared to the actual chance taken by the Government in this program—I mean by that the chance of loss by reason of the obligation the Government takes on its shoulders—there is greater possibility of more good, more employment, and more industrial activity than in anything else we have undertaken so far. If I am wrong about that, I would like to be corrected, because I am going to state it unless somebody convinces me to the contrary.

Mr. HOPKINS. My own interest in this program at the moment is as a recovery measure, and as a measure which gets private funds into this picture, and finds the Government cooperating with industry and the worker and the private home owner, rather than having the shoe

on the other foot. I agree with you. I think, if this modernization campaign can produce $1,000,000,000 of work, the Government will not lose, no matter how you figure it out, more than $50,000.

Senator BARKLEY. Even if it lost the entire $200,000,000 capital, it would be a profitable investment. We have put $3,300,000,000 into Public Works. We have put $400,000,000 plus $900,000,000 more into the C.W.A., which I think was a fine conception, but the Government does not get any of that back directly. It comes out of the Treasury and does not return. Compared to the actual amount of money that may possibly go out of the Treasury under this plan, it seems to me that we have gone further in behalf of more different kinds of occupations and different people than anything we have undertaken.

Mr. HOPKINS. Yes.

The CHAIRMAN. In other words, this is an effort to supply the credit of the Government instead of the cash of the Government in furthering a great constructive program.

Mr. HOPKINS. Yes. I do not think it takes a great amount of the credit. It takes some. We are not going to get these people to work unless we can get some of this private money out. It is not going to be done by direct expenditures of the Government.

The CHAIRMAN. What is your next point?

Mr. HOPKINS. The importance of getting the heavy industries moving and the importance of getting private funds into this employment picture in contradistinction to the Government's funds.

Senator BARKLEY. What does your experience lead you to believe as to the probability of private money coming along with a little encouragement by the Government?

Mr. HOPKINS. I think there is substantial evidence of it. The conference we have held with persons who are in a position to provide credit have been very encouraging. If this bill should pass, that credit will be made available. I believe this would do the trick in a limited way, but a very important way.

Senator COUZENS. What are your other points?

Mr. HOPKINS. That is all four of them, Senator.

Senator BYRNES. Will you not make the fifth point, that it might stimulate construction by other persons who do not have to borrow, who have the money?

Mr. HOPKINS. Yes; I think it would. I think there would be a great deal of that.

The CHAIRMAN. I do not think you will find a great many houses renting for $5 or $6 a month.

Senator COUZENS. You mean per room, I take it.

Mr. HOPKINS. Yes; that is what I meant.

Senator KEAN. He means the workman can rent a bathroom, a dining room, and a sleeping room.

The CHAIRMAN. Are there any other questions of Mr. Hopkins, gentlemen? If not, we can call him in at almost any time. Mr. Hopkins, if we want something further we will call you in again. We will excuse you now. We are very much obliged to you.

Mr. Voorhees, will you take the stand?

STATEMENT OF STEPHEN F. VOORHEES, ARCHITECT, NEW YORK CITY

Mr. VOORHEES. My name is Stephen F. Voorhees. I am an architect. My address is 101 Park Avenue, New York. I am chairman of the construction code authority and a member of the governing board of the American Institute of Architects, and the Construction League of the United States.

The CHAIRMAN. Mr. Voorhees, have you examined this bill, S. 3603?

Mr. VOORHEES. Yes, sir.

The CHAIRMAN. You know what is contemplated there. Will you give us your views about it?

Mr. VOORHEES. My views are expressed as a result of contact with our associates in the construction industry. In my opinion this is a most valuable contribution to recovery, particularly for the building trades workman, as distinguished from other construction workers.

I concur in all that Miss Perkins and Mr. Hopkins have said.

The durable goods committee, elected by the various code authorities when they were here in February, has stressed the essential character of recovery in the durable goods, to be led by the construction industry, and we believe this is in that direction. I am sure that there is a very large field if financing can be provided.

From personal experience over the last year in connection with foreclosed mortgage properties for a client with a great number of kinds, sizes, and characters of property, I find a great deterioration, a lack of upkeep, so that in practically every one of these cases my client has been obliged to spend considerable sums of money to bring properties back to proper condition—in most cases purely a matter of restoration of deterioration.

That condition exists not only in large buildings, such as large apartment houses, hotels, and so forth, but in small homes all around New York, in Westchester, and in Long Island.

From conferences with men from all over the country in the building industry—builders, architects, and special contractors, such as plumbers, and so forth—I am sure it is a very general condition. So that from our viewpoint this is one of the most constructive measures, I should think, affecting the construction industry, that has been offered.

One important feature that Mr. Hopkins mentioned is that of encouraging private funds to go back into the market again, rather than depending upon Government funds for construction.

At the present time I do not know what the percentage is, but certainly construction is largely being carried forward on Government funds of one sort or another, and to a relatively small extent with private funds. We all believe we must get back to private funds, and we think this starts the procession in that direction.

The CHAIRMAN. Is there any need for new construction, new homes, or new buildings?

Mr. VOORHEES. I believe there is, without question. I think there is an enormous amount of doubling up, from all that I can learn, and when the opportunity affords those families will want to separate.

Besides, I think there is a great deal of work in replacements.

The CHAIRMAN. How about the vacancies now? Are there many vacancies of houses and apartments?

Mr. VOORHEES. There are in certain sections—in our city, for example—but I believe they are lessening. In fact, to indicate that, this particular client, which is one of the largest lenders in New York City, a savings bank, has recently made a loan for a new apartment house. That is just a straw. But, considering that this institution has made practically no loans for new construction in the last year and a half or 2 years, it is a measure of their belief that there is some opportunity.

The CHAIRMAN. Is the tendency toward apartments or individual homes? What was the tendency in that direction? Are people getting into apartments and getting out of detached homes, or vice versa?

Mr. VOORHEES. I think in the larger centers the tendency is toward apartments. In other words, I do not believe a house in New York City or the major part of Brooklyn would be very attractive. The costs, and so forth, tend toward apartments.

On the other hand, I think many people would gladly get out in the suburbs in private houses, even if not widely spaced. I am speaking of the moderate-income group. So that I think you have both trends. Insofar as our large centers are concerned, around the whole area of New York——

The CHAIRMAN. Is that because the price of land is so high, or is it because of economic conditions in apartments?

Mr. VOORHEES. I think it is partly due to the price of land and partly the economy of constructing more on a wholesale basis, which is possible in an apartment house as compared with an individual house, and partly because the maintenance question on a wholesale basis is likely to be less than on a retail basis. That is in the case of cities, where it is almost impossible to arrange or provide for self-service. If you are in the country—speaking now as to maintenance—the same group can go out in a small community and serve themselves directly in houses better than they can in apartments. By that I mean that they can have their own boiler and service their own heating plant, and so forth, whereas in an apartment or tenement house that is impossible with our present facilities. You are almost forced to centralization of that sort of equipment, and so the tenant or the owner must pay somebody else to perform that service for him.

The CHAIRMAN. Do you find the need for modernization and upkeep and repairs very great in these outlying communities?

Mr. VOORHEES. Yes. In the community where I live, which is about 30 miles out of New York, one of my family inherited a house built about 25 years ago, a very good house structurally, but built at that time in accordance with the standards of an older age by rather elderly people. In order to rent that house, aside from keeping up the gutters, downspouts, roof, and so forth, we found it necessary to modernize it. A hot-air heater is not satisfactory, even for the low rent level that now exists in the community. There is the question of making an investment to put in a steam-heating plant with an oil burner, instead of a hot-air furnace, not because we

could increase our rent, but in order to rent it at all. It is a stop-loss operation, but I think there is much of that. In our community I know there is. There are excellent houses built previous to 1900, with hot-air furnaces in many cases, just to take that as an example, that are in the position of this house that I speak of, on valuable ground, in a desirable location in the town. They will not be rented by anybody so long as they are so ancient. In other words, it is this picture exactly. We have in the barn a perfectly good carry-all that served previous to 1900. It would probably serve today to get to people uptown as well as an automobile, but no one under the sun would anticipate using that old carry-all. The house is in that same condition—not quite such a radical change, but almost the same. People will not pay reasonable rent in our part of the community for a hot-air heating plant, and they do not like coal.

Those are the things, Senator, that I think are in the background. We have the means to do it, fortunately, due to the release of some other cash. That is, this particular member of my family has the means, but if we had not had the cash available the bank, of which I happen to be a director, would never have given him a long-term loan for that kind of work. We could not. If we had, we would have been hauled over the coals by the Comptroller.

The CHAIRMAN. There is no demand for houses and homes of that type, and no sales are being made?

Mr. VOORHEES. I should say they are rather limited. But, again, in our community there have been two or three. There were these two very desirable efforts to build houses which would have brought money into the community, but there was no means of financing them. I speak of that because I sat on the board of our little bank, and this is what we thought should have been done. We had the builder's paper, and we had the building-supply paper in the bank. We were reluctant to freeze up any more of our funds.

Then there is this condition: Our bank, without any question, would have negotiated that loan and put it through—because it would have helped up——

The CHAIRMAN. If you had had this insurance?

Mr. VOORHEES. If we could have this insurance, with the long-time factor and the other features involved.

The CHAIRMAN. You would have financed it?

Mr. VOORHEES. I know we would, because the only thing we hesitated on at all in connection with this operation was the fact that we wanted to keep our funds liquid in the community. We are a commercial bank, with relatively small opportunity for putting our money out in the community, with the savings deposit feature. It is purely a residential community, with only a small amount of comercial business. But there is an opportunity to develop it over the coure of time for residential purposes, because it is a very desirable residential section.

The CHAIRMAN. Are there any other questions, gentlemen? If not we are very much obliged.

Mr. VOORHEES. Thank you for the opportunity.

The CHAIRMAN. There is a gentleman here from Boston, Mr. Arthur J. Gross, who wants a few minutes.

STATEMENT OF ARTHUR J. GROSS, ATTORNEY, BOSTON, MASS.

Mr. GROSS. Mr. Chairman, my name is Arthur J. Gross; 1626 Commonwealth Avenue, Boston, Mass. I am an attorney.

I do not represent any interests here at all. I have written on consumer credit, and have made a thorough study of it. I have some articles here that have appeared in the Veterans of Foreign Wars publication, and other publications, on consumer credit.

Before taking up the merits and demerits of this bill I wish to state that whatever I have to say in reference to the bill is based entirely on facts and not on any prejudices. I am in sympathy with the administration in its effort to help bring the country out of the depression, and I believe that it is doing everything possible to bring about an early recovery.

The first thing I want to talk about is to go back and cover a little history in reference to a measure similar to this, known as the "Federal Farm Loan Act." The older Members of Congress, no doubt, recall this act and joint-stock land banks that were created by the act. The joint-stock land banks were private corporations financed by private capital in the form of stock and bonds. The millions of dollars worth of stock that were sold to the public in the various joint-stock land banks which showed tremendous losses to the investor by the promoters. Unfortunately promoters took advantage of the act and organized several joint-stock land banks and either appeared personally on the board of directors or had "straw" directors who carried out the wishes of the promoters. The stocks were sold through some of the most reputable investment bankers at prices ranging from $120 to $200 per share, and the prices were increased by an unwarranted increase in the dividends to a point where the promoters unloaded the stock onto the public at high prices. After the stock was distributed the dividends were either reduced or passed entirely. Further capital was obtained by the sale of joint land-bank bonds. Although the banks were private corporations, similar to national banks, the public was led to believe that the banks were instrumentalities of the Government and some of the investment houses went so far as to make this statement to their clients in order to find a ready market for the securities. There is danger that such a reoccurrence might come in the national mortgage associations that will be created under the act as contained in Senate 3603.

What happened to the joint-stock land bank is a sad page in the history of farm credit. Instead of helping the farmer as was intended by the Federal Farm Loan Act, provide money for the farmer with first mortgages on the farm as security, the farmers found themselves with large mortgages and the inability to meet the interest and payments on the principal and before long found that their properties were foreclosed. So that instead of helping the farmer by providing funds at 6 percent instead of 10 percent to 12 percent that they were compelled to pay in the past to individuals and institutions specializing in form mortgages the farmer was injured. In addition to this the public which invested heavily in the stocks and bonds of the banks found themselves entirely wiped out. In some instances the banks were forced into receivership. In other cases where the stocks were selling for almost nothing and

the bonds selling for anywhere from 20 cents to 60 cents on the dollar, the investor through no fault of his own, depending on the integrity of the banks and the fact that the Government sponsored the banks, lost millions of dollars. My personal experience in this situation was brought about by my representing investors in some of the banks. I was requested to testify before the House Committee on Banking and Currency in 1928 at the request of the late Congressman Brand, of Georgia, a member of the committee. Evidence was turned over to the Department of Justice by me in 1928, which showed corruption, inefficiency, and violations of the Federal Farm Loan Act by some of the joint-stock land banks. In some cases there were prosecutions with convictions for violation of the act. Your committee, I believe, could obtain valuable information from the Department of Justice with reference to the situation.

This is cited merely to show that there are a number of pitfalls that should be avoided in the act under consideration. This act should be so worded so as to prevent the reoccurrence of some of the things that took place under the joint-stock land banks.

I will go into the different phases of Senate 3603 after covering the most important part of the problem confronting the country, the forgotten man—the consumer.

The real forgotten man is the consumer, the head of the American home. He has received no consideration from the standpoint of his purchasing power, his rights that he is entitled to, and protection that he should be given. This is due to the fact that he is not organized and does not maintain lobbies in Washington and in the State capitals in the same way that other interests do. The most serious problem of the consumer and, as a matter of fact, of the country as a whole is the cost to the consumer of the credit extended to him in the way of interest on small loans up to $300 and interest or service charges for the privilege of buying necessities or luxuries on the installment or partial-payment plan.

The first thing that should be considered is the fact that all business exists for the consumer, whether it is capital goods or consumer goods. Plants may be erected, machinery built and installed, but the ultimate use of the products is for the consumer.

When you deal with the consumer you are dealing with the home. The business of the home is by far the greatest industry of all. Therefore, to place the wheels of industry in motion and keep them turning, it is necessary to consider the purchasing power of the consumer and to give thought to the more equitable and fairer methods in financing the consumer.

Unfortunately, the consumer could never get ordinary bank credit, even though his credit is good as found by the Department of Commerce in its survey made in 1930, and also by those engaged in extending credit to the consumer in their reports to their stockholders. Although the credit is extended almost entirely on the character of the borrower, even though security is obtained by mortgages on automobiles and household furniture, the losses are small. As a matter of fact, in normal times it does not run much over three fourths of 1 percent, and in the past 2 or 3 years, during the most trying times in the history of our country, losses have not averaged much over 1½ percent on the enormous volume of business done which runs into the billions of dollars.

During the past 20 years the American home has plunged itself into debt to such a degree that it takes a large portion of the income to take care of the interest or carrying charges and the payment on the principal. According to the survey made by the Twentieth Century Fund, whose trustees are Edward A. Filene, Newton D. Baker, Bruce Bliven, Henry S. Dennison, John H. Fahey, Max Lowenthal, James G. McDonald, Roscoe Pound, and Owen D. Young and Evans Clark, directors, and founded by Edward A. Filene, president, William Filene's Sons Co., of Boston, Mass., three fourths of the population of the United States find the margin between their income and the necessary outgo so close as to allow little or no leeway for emergencies or even for making improvements in the family economic structure.

Senator BARKLEY. In what publication of the fund are those facts set forth?

Mr. GROSS. Financing the Consumer, by Evans Clark, and other publications I have.

To take care of the needs of the consumer there has developed in this country a 10-billion-dollar business. No one knows the exact figure, but it is estimated that out of every hundred families in the United States, at least eighty make use of this business. Fifty out of the hundred may have borrowed cash from small loan agencies. According to Evans Clark in his book Financing the Consumer, in the 4 years covered in the survey of consumer credit the number of borrowers increased 192.3 percent, the amount loaned 201 percent, and the investment in the business 225.3 percent. The other 30, and most of the 50, as well, may have been given credit on some purchase made on the installment plan.

Insofar as installment selling is concerned, I have no fault to find with it provided that the consumer is given some consideration as to his ability to pay, service or interest charges are reasonable, and made known to the consumer.

Mass production, up to the start of the depression, brought about an attempt at mass distribution by our industrialists who, as we have found, are controlled by a handful of men located in our financial center. This was done, undoubtedly, to show large earnings and to be able to pay large dividends on the stock of the corporations making consumer goods. This distribution was made without any real thought on the part of the dealer as to the economic welfare of the consumer. All that some of them did was to get the down payment and get the consumer to sign on the dotted line for the balance. Some sellers still have the idea that the ancient legal phrase "Caveat Emptor"—"Let the buyer beware"—is still the code used in business.

Some still think the buyer is a fool and should be given no consideration. The installment house which loads onto its customer something which he cannot fairly afford is performing for him a lack of service. The following case is an actual fact and can be verified by Mr. Roy F. Bergengren, executive secretary of the Credit Union National Extension Bureau. It was the case of an elderly factory worker who had been married for 26 years and who still owed on his original furniture, although most of the furniture had long since found its way to the junk pile. In this case every article of furniture he had purchased had been added to his original contract, thereby keeping it alive. During the 26 years of his married

life he had never owned a stick of furniture, but all of it was on lease. This is true with a number of questionable furniture houses who sell on the installment plan and are known as the "Borax" houses.

Another case is that of a barber who had an excellent job in an exceptionally fine barber shop, where he received $40 a week and tips, yet this man was always hard up for money. After getting all of the facts on paper, to his great amazement he found that he had agreed to buy on the installment plan things calling for total weekly payments of $62. There are thousands of such cases.

The installment finance agencies extend credit to the amount of about 4 billion dollars annually to finance the purchase of commodities by the consumer. According to Professor Seligman in his book Economics of Installment Selling, over 6 billion dollars' worth of goods is being sold on the installment plan annually. The interest or service charges for this accommodation ranges from 15 percent to 200 percent per annum, yet the dealers or agencies are safe from conviction for usury. Rightly or wrongly, merchants who do their business on the installment plan operate under an entirely different law from that which governs other lenders of money. This statement is made by Dr. William T. Foster, of the Pollak Foundation for Economic Research, and now a member of the Consumers' Advisory Committee under the N.R.A. The trouble is that the consumer is not told what the cost of the accommodation is in buying on the installment plan by the dealer or anyone else. The cost is almost always hidden or evaded by the seller.

To indicate what the earnings for finance companies who handle installment sales are, the following figures are interesting:

	Dec. 31—	
	1933	1932
Gross business	$517,192,142	$412,527,089
Net income	8,055,414	6,266,103
Dividends	6,000,000	6,000,000
Undivided profit, Dec. 31	14,360,288	9,490,138

The capital of the General Motors Acceptance Corporation, which is owned entirely by the General Motors Corporation, is $50,000,000. The dividends received by the Generals Motors Corporation on this stock are equivalent to 12 percent per annum. The earnings of the Acceptance Corporation on the capital stock are equivalent to about 16 percent. These earnings are during the period of depression. It must be remembered that the Acceptance Corporation is intended only to finance the distribution of General Motors products on the installment plan.

Commercial Investment Trust

	December 31—	
	1933	1932
Volume of business	$475,884,330	$317,307,520
Net income	7,474,394	5,719,775
Preferred dividend	985,399	1,601,808
Common stock dividend	3,770,736	4,036,201

The preferred dividend is earned by this company over seven and a half times. The earnings on the common stock are at the rate of $3.42 per share in 1932 as against $2.04 for the year 1932 for the average amount of stock outstanding during these years. Dividends on the common stock have been paid regularly, the last rate being 50 cents on January 2, 1934, and payable quarterly.

There are a number of companies doing this type of business, and the above figures are merely examples of the earnings in this line of business.

The small-loan agencies probably advance over $2,500,000,000 a year. This includes all forms of lending except loans by life-insurance companies to their policyholders, and are divided as follows:

Unlicensed lender and loan shark	$750,000,000
Pawn brokers	650,000,000
Personal finance companies	500,000,000
Industrial banks (Morris Plan type)	350,000,000
Personal loan departments, commercial banks	200,000,000
Credit units	85,000,000
Remedial loan societies	60,000,000
Axias	50,000,000

Perhaps some of you do not know what an axia is. It is a foreign form of savings and loan proposition that originated in Austria and was brought over here. You find it amongst Jews in the large cities, such as New York and Boston. A group of foreigners will get together and form this little independent savings and loan society.

For this enormous business of making small loans the following rates are charged:

	Annual interest charge, percent
Credit unions	6 to 18
Personal-loan departments, commercial banks	9 to 23
Industrial banks	17 to 35
Remedial loan societies	12 to 36
Axias	18 to 30
Licensed personal finance companies	24 to 42
Commercial pawn shops	12 to 120
Unlicensed lenders	240 to 480
Illegal charges made by loan sharks range from	240 to 1,000

One case found by the Atlanta Legal Aid Society showed where a borrower paid $1,550 on an original loan of $76 before the debt was finally liquidated. The loan shark does not hesitate to enforce wage claims by garnishment proceedings against the borrower. Often times a borrower must meet a doctor's bill for his wife's operation, or sickness, and is pressed by other debts. He sees advertisements which read "Money Loaned and no questions asked." He wants to borrow $50. The lender, or salary buyer, is glad to let him have the money but insists that he does not make loans. If the borrower reads the printed form handed him carefully and understands it, which he probably does not, he will discover that by signing it he agrees to sell the lender $55 of his next semimonthly wages for $50. This is at the rate of 240 percent per annum.

Usually a tragic train of further borrowing follows to cover the original loan from the same, and often other lenders, until the victim is harried and distressed beyond endurance.

The uniform small-loan law sponsored by the Russell Sage Foundation permits a charge of 3½ percent per month, or 42 percent a

year, on unpaid balances on loans up to $300. This law is in force in about 25 States, but in some States in the past 2 or 3 years reductions have been made by the legislatures.

I personally have prosecuted some cases in Massachusetts, and have defended cases of borrowers. I have news items here to substantiate the fact that these unlicensed lenders and loan sharks gouge the public.

There is a great deal of confusion and wide difference of opinion as to what a fair rate for small loans shall be, as indicated by the following:

Delaware, 11 percent per annum; Colorado, 1 percent per month, plus a fee of $1, permissible not over four times a year; Alabama, 1 percent per month; Texas, 10 percent per annum; Ohio, 3 percent per month; Missouri, 2½ percent per month; New Jersey, 2½ percent per month; New York, 3 percent per month up to $150, and 2½ percent per month in excess of $150 and up to $300; New Hampshire, 2 percent per month—that was reduced last year by the legislature from 3 percent per month; West Virginia, 2 percent per month; Maine, 3 percent per month; Massachusetts, 3 percent per month; Oregon, 3 percent per month; Utah, 3 percent per month; Nebraska, 10 percent per annum plus a fee of 10 percent collectible every 6 months; Mississippi, 10 per cent per annum, plus charges depending upon the size of the loan; Minnesota, 1 percent per month, plus fee ranging from $1.75 to $5.75 where a chattel mortgage is taken; Wyoming, 25 percent per annum; North Carolina, 6 percent per annum.

There are about 25 States that have a uniform small-loan law, which was sponsored by the Russell Sage Foundation, and that has done a great deal to alleviate the loan-shark evil in those States. Originally in those States loan sharks were getting anywhere from 10 to 20 percent per month, and by reducing it to 3½ percent through the uniform small-loan law a tremendous saving has been made to the consumer.

The CHAIRMAN. Under that law it is 3½?

Mr. GROSS. In some States it is 3 and in some States it is 3½.

The CHAIRMAN. Do you know what it is in the District of Columbia?

Mr. GROSS. The District of Columbia has had a sad experience. Congressman Bowman 2 years ago introduced a uniform small-loan law, with rates of 3 percent up to $150, and 2½ percent from $150 to $300. That bill was defeated. Congressman LaGuardia, now mayor of New York, had a great deal to do, for some reason unknown to anybody, with filibustering against the bill. I understand there is a bill pending now in Congress for the District of Columbia. It is a known fact—and I have verified that since I have been here this week—that there are loan sharks operating in the District of Columbia today, in violation of the law.

According to Leon Henderson, director of the department of remedial loans of the Russell Sage Foundation, the bulk of the high-rate loan business is done in Alabama, California, Minnesota, Texas, and Washington.

It should not take a statistician or an expert accountant to see that the volume of business on the installment plan and small loans

made to the consumer and the cost of these services are far out of proportion to the income of the consumer. The consumer's purchasing power in normal times is small when you consider the per capita income in the United States, which has been severely reduced in the past 3 or 4 years.

Wages for all classes increased only some 23 percent between 1919 and 1929. Dividends to all industrialists increased some 72 percent, while the dividends on industrial and rail stocks increased 285 percent. There was a staggering increase of the incomes in the higher brackets. As Senator Wagner has pointed out:

> In 1929 the value of goods produced in factories in the United States was $10,000,000,000 greater than 1923. Of this increase, 6 percent went into wages, 8 percent into salaries, 38 percent into raw material, and 48 percent into profits and other costs. Is it therefore any wonder that during the heyday of our prosperity less than one tenth of the population received one third of the national income, while three fourths of the people lived below the standards of comfort set by the United States Bureau of Labor Statistics?

At the top we find the great industrialist or financier whose earnings run into many millions of dollars yearly. At the bottom we find the tenant farmer or the day laborer with no more than a few hundred dollars of yearly cash income.

The Federal tax return for 1930 shows only 3,707,509 out of perhaps 50,000,000 income earners had incomes large enough to be reported for taxation purposes. The average American wage earner probably earns no more than $1,500 to $2,000 a year. The average farmer probably earned even less, perhaps no more than $1,000 cash income at the most.

Although the United States is a political democracy, the riches of the Nation are not shared equally among all its inhabitants. Personal incomes, or money earnings, are distributed unequally.

The inadequate income of the majority of American workers and farmers is the most important cause of the depression, since most of the spending upon which capitalism and the price system depend is done by those who have relatively small incomes. Even in 1929, 95 percent of all Americans who had any income at all received not over $2,000 a year, yet they purchased 73 percent of all the goods and services bought in the United States during this year. Added to this the high cost of credit to the consumer, means lack of consumption and not overproduction as we find the facts. One of the chief obstacles to recovery lies in the fact that the great mass of possible purchasers do not have sufficient money to buy even the necessaries of life, to say nothing of luxury goods.

According to the Consumers' Research Bulletin of April 1934, the consumers are paying the bills as evidenced by the fact that whereas industry's earnings for the first 9 months of 1933 increased 160 percent over the same period in 1932, the farmer's gross income rose only 24 percent, and pay rolls decreased 3.2 percent. The consumer's average income is now, as has been for some months evident, actually decreased relative to prices of goods and services which the consumer bought. This is going to be more true under the various N.R.A. codes. Under these codes the consumer is being forgotten, whether intentionally or otherwise.

Under the subject of consumer's credit, I have not taken into consideration the total indebtedness on first and second mortgages on

homes and the cost of this form of financing, which figures have been quoted by other witnesses, and with which your committee is familiar.

In conclusion, if the bill, Senate 3603, which creates the Home Credit Insurance Corporation, National Mortgage Associations, and the Federal Savings and Loan Insurance Corporation, will bring about a reduction in the interest and service charges on consumer credit, the act will be a benefit to the American home owner. But should this not occur, it will mean an additional burden on the consumer in several ways.

Should there be any laxity in the making of loans for purposes other than intended by this act, the United States Government will face trouble in the future. Through the Home Credit Insurance Corporation, whose stock will be owned by the United States Government, losses may arise because of such loans made by private companies engaged in extending credit to the consumer through the inability of the consumer to meet his interest and payment on the principal. In the past few years holders of first and second mortgages on homes have experienced heavy losses because of the inability of the owner to meet his obligations.

In looking over the bill as a whole I find that the consumer is not amply protected in that no interest rate is specified as to what the consumer would be charged by the private companies for loans made to him. This is a serious problem. We must understand that the normal banking rate of 6 percent per annum cannot be forced on small loan agencies and installment lending companies and other financial institutions that make small loans. The cost of investigating the borrower, the cost of recording the chattel mortgage, the cost of collection and bookkeeping require a higher rate than the 6 percent per annum which is the normal rate for bank loans. What the fair rate shall be for loans made to the home owner by the agencies mentioned in the act should be given serious consideration and named in the act so that the rate will be uniform throughout the country and known to the consumer.

The experience of the companies that insured the bonds of the private companies which were secured by second mortgages on homes in the past few years should be considered, some of the companies having been forced into receiverships because of the losses sustained.

I shall be glad to go into further detail with your committee on this subject, supplying such additional information as I have available.

I have worked out with some people in the consumer-credit field a plan whereby anywhere from 2 to 3 billion dollars can be released for purposes of creating new purchasing power and without costing the Government one penny. The plan should be welcomed by people in the consumer-credit field. You have your national associations of personal finance companies; you have your Morris Plan banks; you have your companies that finance installment sales. They should be gotten together and agree to the plan, which is very novel, to extend the loan, instead of for a short term, over a longer term. Instead of having a short-term loan for 6 months or a year, for example, they might pay $2 a week on their loan; and if that loan is extended for a period of 2 years the payment would be cut down

anywhere from 25 to 50 percent and in that way release a lot of money that could go into the purchasing of necessaries and perhaps luxuries, the payment of doctors' bill, dentists' bills, and hospital bills. Doctors, dentists, and hospitals have suffered more than anybody, because the last bill a person will pay is a doctor's bill or a dentist's bill.

That plan can be worked out by the people in the consumer credit field, and release a lot of money to create new purchasing power without the cost of one penny to the Government. That is being done at the present time in a small way by some of the personal finance companies. In some cases they have waived the interest where the borrower has lost his job and has been out of work for a long time. They have rewritten the loans, extended them over a longer period, and cut the payments down. If they are able to do it, and are willing to do it, there is no reason why a corporation like the General Motors Acceptance, which finances the purchase of automobiles and electrical appliances made by General Motors, should not do it. It does not mean any loss at all to them, because the life of an automobile is more than a year, and if the payments are extended over a 2-year period, it means smaller payments, more money available for necessities, more money available for pressing debts that are outstanding.

Senator BARKLEY. It is not contemplated by this bill that money shall be loaned to people for the payment of debts, or anything except construction.

Mr. GROSS. You do contemplate consumer credit. You make arrangements with personal finance companies to make loans from $200 up to $2,000. Human nature is human nature. A person may go to these personal finance companies, or the Morris Plan Bank and want to borrow $300, with the statement that he is going to use it for repairs to his home. He may use about $100 of it for that, and the other $200 may go into luxuries. You are going to get a spending orgy if you do not watch and see that the act is properly administered.

The CHAIRMAN. Do you think that this bill will have some bearing on that situation?

Mr. GROSS. It will, Senator.

The CHAIRMAN. It will be helpful, you think?

Mr. GROSS. Because you are arranging for loans by personal finance companies, installment selling agencies, credit unions, and Morris Plan banks, to be able to have their loans insured by this new corporation that is being set up; so that it has a tremendous bearing on the bill, and the bill has a tremendous bearing on consumer credit. Consumer credit is part of this bill.

The CHAIRMAN. We are very much obliged to you.

We will take a recess now until 10 o'clock Monday.

(Whereupon, at 12:45 p.m., Saturday, May 19, 1934, an adjournment was taken until Monday, May 21, 1934, at 10 a.m.)

NATIONAL HOUSING ACT

MONDAY, MAY 21, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on Saturday, May 19, 1934, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Barkley, Bulkley, Bankhead, Adams, Goldsborough, Townsend, Couzens, Steiwer, and Kean.

Senator BARKLEY (presiding). The committee will come to order, please. Senator Fletcher had to go to attend a meeting of the Joint Committee on Printing, and asked me to preside until he returns.

We will hear Mr. Fahey this morning, and if he will come forward to the committee table and give his name, address, and occupation.

STATEMENT OF JOHN H. FAHEY, CHAIRMAN OF THE FEDERAL HOME LOAN BANK BOARD, WASHINGTON, D.C.

Senator BARKLEY. Mr. Fahey, may go ahead and make your statement in any way you prefer with reference to this bill (S.3603), which we are now considering.

Mr. FAHEY. Thank you. Now, Mr. Chairman and gentlemen of the committee: It seems to me it is quite unnecessary for me to review or repeat a good deal of information which has already been presented to you as to the need for this legislation as we see it; also as to the necessity of dealing with the problem that it presents as quickly as possible.

Senator COUZENS. Before you start in on that may I ask you a question?

Mr. FAHEY. Certainly.

Senator COUZENS. In what way does this relate to an appropriation made in a bill which we passed and in which we made provision as to mortgages of the Home Owners' Loan Corporation. You will remember that there was an appropriation there for some of these things.

Mr. FAHEY. Yes, sir. When the amendment was passed guaranteeing the principal as well as interest, $200,000,000 of the available funds of the Corporation were then set aside to be used for modernizing homes which we refinanced and took over. That is, we were permitted to employ up to $200,000,000 of the $2,000,000,000 of bonds at our disposal for that purpose.

Perhaps it would be just as well to explain right now that the Board recommended that amendment of the act, because of demands being made upon us by home owners whose mortgages we were taking over, of something for modernizing and repair, and which were beyond our ability to supply.

Senator COUZENS. Why was it beyond your ability to supply? Just because you did not have any authorization for that work, or what was it?

Mr. FAHEY. Yes. Because under the original act we could only, in taking over a home, and where it was necessary, advance cash and that cash had to come out of our cash capital. We advanced cash only——

Senator COUZENS. (interposing). In addition to the mortgage, do you mean?

Mr. FAHEY. Yes. We advanced only for absolutely necessary maintenance and repairs. In other words, the repair of a roof or any other repair that would serve to put the home in good and proper condition.

Senator COUZENS. Was that included in the mortgage, or was it a separate item?

Mr. FAHEY. That was included in the mortgage and paid for out of our cash capital.

Senator TOWNSEND. What became of those $200,000,000 appropriated for that purpose?

Mr. FAHEY. What I started out to explain was this: The demands for repair and for modernization from these home owners was far in excess of just maintenance and ordinary repairs. In other words, we kept things down to absolutely necessary maintenance and repairs, you see.

Senator BARKLEY. So as to keep the property in shape, to the end that the mortgage would be good, was that it?

Mr. FAHEY. That is right. It was just like the case of any other mortgage lender. We just had to do that. For instance, there was no sense in taking over a first mortgage on a home that was not in condition and then presently be obliged, in servicing that mortgage, to expend substantial sums in putting it in repair. It was a far better policy to do that just as all other mortgagees do, at the time the loan was made.

Senator BARKLEY. But it did not contemplate more than that.

Mr. FAHEY. No, sir.

Senator COUZENS. It did not, for instance, contemplate putting in American Radiator Co. radiators, or Johns-Manville heating apparatus, did it?

Mr. FAHEY. Oh, no. What we could do was restricted to absolutely essential maintenance and repair, and no more.

Senator COUZENS. Are you using any of that money now?

Mr. FAHEY. Oh, we have been using it right up to now, of course.

Senator BARKLEY. And if this bill should pass would you continue to operate under that same provision?

Mr. FAHEY. The law was amended so that we might use up to 200 million dollars in going beyond just repairs and maintenance, and in improving and modernizing those homes wherever the condition of the borrower justified it, and the demand existed. That provi-

sion was recommended by the Board because of the large number of applications we were receiving from these home owners for money beyond just maintenance and repair.

Senator ADAMS. Has your 200 million dollars been used up?

Mr. FAHEY. Do you mean under the amendment?

Senator ADAMS. Yes.

Mr. FAHEY. Oh, no. But at the rate we were going it would have disappeared already and long before our 2 billion dollars were gone, because, as you will remember, we absorbed taxes as well as delinquent interest. As a matter of fact, in the matter of taxes alone the corporation has already paid out almost 50 million dollars to municipalities in this country on the 650 million dollars of loans we have made.

Senator BARKLEY. As a matter of fact, that 200 million dollars was not an additional appropriation above the 2 billion dollars, but the amendment simply allowed you to use that much out of the original maximum sum you had for the purposes contemplated under the Act.

Mr. FAHEY. That is right.

Senator KEAN. At the present time you are keeping in repair the properties and are paying taxes, but you do not give the borrowers anything else, do you?

Mr. FAHEY. We take over the mortgage if the appraisal justifies us in doing it. And then if there are accrued taxes—because those are a lien against the home—we absorb those in order to protect our own lien of the first mortgage, of course, and provided the home owner isn't able to pay the taxes himself. If he is able to pay we do not absorb any taxes.

That also applies to any delinquent interest or any default in the payments to the mortgage corporation. In other words, we take only what we are satisfied he cannot meet at the time and what he must have time on.

Then we rewrite his mortgage. Under the new mortgage, which is for 15 years, we discharge this indebtedness. The result of that is that his monthly obligation under his old mortgage, whatever it was, is very substantially reduced, and it is comparatively easy for him, or should be under anything like reasonable conditions, to carry the 50 payments over a period of 15 years to the corporation. In most instances the monthly payments are cut down from one half to two thirds.

Senator KEAN. Are your mortgagors, for the most part, meeting their payments, or if not, in what proportion are they meeting them?

Mr. FAHEY. That is hard to say, because of course the bulk of them have just been gotten out in recent months. Some of them undoubtedly will be behind in their payments for a while. On the other hand, it has been quite surprising some of the experiences we have had. For example, because loan papers are slow in passing through the recording stage, and all that sort of thing, and sometimes in getting them in there is liable to be delay between the closing of the loan and the arrival of the loan papers here in Washington, and our recording the papers here and sending out bills. As a matter of fact, before we had gone through that process and sent out the bills we had received here in Washington nearly

1½ million dollars in payments from people who had not received their bills at all, which is rather interesting, and I think a most encouraging commentary on the character of the people.

Senator ADAMS. I gather, then, that all of your collections will be made out of the Washington office.

Mr. FAHEY. Oh, no.

Senator ADAMS. You spoke of sending out bills from Washington.

Mr. FAHEY. They have been in the first instance set out from here. Then when they fail to pay we send the matter along to our State and district offices, but will follow up these collections personally. In other words, we will have to do that just as any other mortgage-lending institution has to do. We have to go through exactly the same process that every insurance company and every other mortgage lender in the country goes through. That part of it we are just beginning on.

Senator ADAMS. I merely wanted that made clear.

Mr. FAHEY. No; it would be an utter impossibility to make all these collections direct from Washington. It just could not be done.

Senator COUZENS. The reason I asked the question a while ago was that it seemed to me the $200,000,000 provision in the bill that we passed was somewhat in conflict with the present bill. Is that true?

Mr. FAHEY. No, sir.

Senator BULKLEY. About that $200,000,000 provision, your Board recommended it, as I understand.

Mr. FAHEY. It did.

Senator BULKLEY. Was it with the idea of meeting the demand and to make your security on the loans better, or was it with the idea of providing employment by means of renovation?

Mr. FAHEY. All three. First, as I have already explained, we received a great many applications from people whose equity in their homes was very substantial in relation to our appraisal and our loan; from people who wanted to add an L, or to rebuild a porch, or to do something else to the house, but they could not get the money to do it from any private lenders, and they could not get it from us at that time because we were restricted to necessary maintenance and repair.

Now, gentlemen of the committee, of course, we would not be justified in making loans of that sort for such purpose unless the loan was in shape for us to do it. But we found that we were refusing, because we had to, to meet a great many demands of that sort; and we felt that if we were free to meet such requests it would be of advantage to the Corporation, because it would strengthen the asset value of our property behind the mortgage. And, secondly, it would encourage employment, and would have, therefore, a generally beneficial effect. Not only that, but, of course, over the 15-year life of our mortgage, if the home were put in really first-class shape, it would relieve us of the possibility of difficulties in the future. And so it was thought that wherever it was justified, out of those hundreds of thousands of applications the Corporation had, out of the money available it was worth while doing this work from every standpoint.

Senator BULKLEY. That is, if the borrower wanted it. You did not have in mind putting on a campaign to sell it to him, did you?

Mr. FAHEY. Oh, no; hardly that.

Senator BARKLEY. Of course, the expenditure of those $200,000,000 authorized out of the original $2,000,000,000 was limited to those who had the need and who were available for refinancing.

Mr. FAHEY. Yes.

Senator BARKLEY. It does not authorize you to go out and make Government loans at all?

Mr. FAHEY. No. Under the limitations of the law we cannot deal with the general public but are limited to the homes we refinance.

Senator BARKLEY. I wanted to understand that.

Mr. FAHEY. I ought to add an explanation of that situation, and it illustrates what happens: We were impelled to make this recommendation, as I have explained, as a result of the information coming to our offices from week to week in the applications presented for consideration. The amendment was signed about 3 weeks ago, you will remember, and our offices all over the country are now getting into shape to deal with those applications for modernization. And yet as a result of the very limited publicity it has received, our offices all over the country are just being overwhelmed with people who are coming in asking for loans for this purpose, under the impression that we were able to deal with all applications and that we were not restricted to just those for whom we refinanced mortgages. And that development of last week in that respect was quite serious. These thousands of applications were flooding into our offices, and we just could not attend to them; and it was none of our business to attend to them, and many of the applicants were finding fault with us and are filing complaints now. They do not understand the situation.

We are trying to put out some publicity to clarify the situation, and we hope what we are doing will clarify it. But that experience, and it is going on right now, is pretty conclusive evidence that there are a lot of people in this country who would be glad to make use of the money if it were made available to them.

Now, how far you are justified in letting them have the money is something that we cannot say. We can only speak so far as our own experience goes. Of these people who are coming in and filing applications we can express no opinion, because we cannot take care of them, and we simply have to turn them away. But it must be a fact that a substantial number of them at least are eligible for loans of this sort, and certainly they are disposed to negotiate them if they have the opportunity to do so.

Senator TOWNSEND. Do you know from your short experience what percentage of them have been eligible; that is, that you could make loans to?

Mr. FAHEY. Do you mean of those who have come in to us?

Senator TOWNSEND. Of those that have made request of you.

Mr. FAHEY. No. We could not tell you about that. They are coming in to us, and to them we have to say: You understand that we cannot deal with anybody except as to homes we take over. You are not in distress and you are not filing an application for a loan. We cannot do anything for you. On the other hand, you will realize that the very fact of these people not being applicants for loans to us is of itself rather substantial evidence that they are worth while. They are not people who have filed applications with us for loans at

all but people who now come in and want to get money for this particular purpose.

Senator BARKLEY. Mr. Fahey, you may now go ahead with your remarks about the bill pending before us.

Mr. FAHEY. It seems to me, gentlemen of the committee, that this problem needs to be considered from three different angles:

1. That of the mortgage-debt problem;
2. From the standpoint of employment; and
3. From the standpoint of the need of better housing in this country.

We on the board of the home-loan bank are convinced that there has been very little appreciation of the seriousness of the mortgage-debt problem and the necessity of attacking it vigorously if we are to avoid increasing troubles in the years to come.

As you gentlemen know, the mortgage debt against urban homes is the largest single block of indebtedness in our national balance sheet. The real-estate debt of the country is something in excess of 35 billion dollars. The debt against urban homes of the amount of $20,000 or less is about 21½ billion dollars.

Senator TOWNSEND. Of the 35 billion dollars you referred to?

Mr. FAHEY. Yes, sir.

Senator BULKLEY. And the 35 billion dollars does not include farm mortgages.

Mr. FAHEY. Oh, no. It is exclusive of them.

Senator TOWNSEND. What are they?

Mr. FAHEY. Farm mortgages, according to latest estimates of Government departments, amount to approximately 8 billion dollars. You will see, therefore, that the debt against urban homes is two and a half times the farm debt in its aggregate. It is about equal to the total debt of the Federal Government and all our State and municipal debts. That 21½ billion dollars compares with about 8 billion dollars of commercial loans in all the banks of the country, including the loans against stock-exchange collateral.

So that you gentlemen can see as a debt problem compared with anything else that bulks large it is easily the most serious that we are confronted with. We have been of opinion that we are not going to secure the stability in our financial situation which we ought to have until we have advanced very much further in the solution of the mortgage-debt problem.

I will say that debts represented by these mortgages do not attract the same attention as loans made on stock-exchange collateral, and when they mature and are called for payment they do not have the same effect, of course, as call loans on the stock exchange, which bring about a quick and dramatic change in prices, and liquidation of the sort that create havoc immediately.

On the other hand, the difficulty involved in this mortgage-debt situation is a sort of creeping paralysis. A large part of the loans against urban homes in this country has been made for periods of from 3 to 5 years, and some of them 1 and 2 years. And the theory of the loans made by mutual-savings banks and insurance companies generally was not that those loans should be amortized but that when they came due they could be renewed, and therefore they represent more or less permanent indebtedness.

Our experience since 1929 has showed pretty conclusively that that is not a very sound method of carrying mortgage loans against homes. As those mortgages have matured institutions have been unable to realize on them, generally speaking, except by taking losses; the home owner has not been in position to meet the maturing note in full, and when he was asked to make a substantial curtailment he usually was not able to do it.

Now, of course, as the years have passed since 1929 these difficulties have accumulated, and they have been offset only by the work of the Home Owners' Loan Corporation, or to a very large extent only by the work of that Corporation.

When the Home Owners' Loan Corporation came into existence in June of 1933, 5 billion dollars of mortgages on urban homes were already facing foreclosure in the country as a whole. Before that more than 800,000 homes had been foreclosed and sold, had already been cleaned up. We were facing in closed banks alone more than a quarter million home mortgages eligible for acceptance by the Home Owners' Loan Corporation, amounting to over 650 million dollars. I mean that they were already in the hands of receivers in those banks. In the very month that this bill was signed and the Corporation came into existence an all-time high record of foreclosures was established in the United States. They ran up to nearly 26,000.

Now, comparing that with previous conditions the record shows that in 1926 the total of foreclosures in this country was 78,365. But following the stock-market crash and by 1932 the figure had risen to 273,384. Last year, for the full year of 1933 it was only a little more than 2,000 less. In other words, the total number of foreclosures in the United States last year was 271,996. That is approximately three times any normal record.

Senator BULKLEY. Have you that total separated into the first half and the last half of the year 1933?

Mr. FAHEY. Yes. I think I can give it to you by months, even.

Senator TOWNSEND. Have you that information for the months of this year also?

Mr. FAHEY. Yes, sir; we have the data up to date.

Senator KEAN. Can you tell us what happened to those mortgages where there was foreclosure?

Mr. FAHEY. What happened in that case was that the property was sold at a sacrifice price or the mortgagee took it over and recovered it. Now, we have gotten some of these homes back, because under the terms of the original act where the mortgagee was agreeable we could recover that home and hand it back to the home owner. I cannot tell you just how many cases of that sort there have been, because we haven't those figures, have not kept them separately.

Senator KEAN. What I want to know is: When the most of them were foreclosed have they gone again into the ownership of the people occupying the homes, or have the properties become rented properties, or something of that sort?

Mr. FAHEY. It is very difficult to say as to that. You can only generalize about it by reflecting the information and opinions that we get. There are no dependable statistics on the subject. They represent a certain number of vacancies, there is no question about

that. In other cases those homes are now rented. In still other cases they have been purchased or are occupied by people who previously enjoyed higher incomes than they enjoy today, by people who have taken a step down.

Incidentally, if I may digress for a moment, of course the result of all that movement is a greater demand for lower-cost habitation today than under ordinary circumstances. We have to remember in considering this whole problem that the cost of shelter, according to dependable figures of the Government and all other agencies, for many years back is the largest single item in the home budget. It runs about 25 to 26 percent as an average in the country. You will remember that the Filer Foundation figures presented just the other day showed the average for the entire country for the last 30 years was 26 percent expended for home ownership or maintenance or rent. That is in excess of what is spent for food and everything else.

Senator KEAN. That has always been so, hasn't it?

Mr. FAHEY. It has always been so.

Senator BULKLEY. I am interested in the separation of the figure for the year 1933 into 6 months' period, because it might show the trend of what your Home Owners' Loan Corporation has been able to accomplish.

Mr. FAHEY. It dropped about 25 percent from the peak.

Senator BULKLEY. I don't quite understand what that percentage is.

Mr. FAHEY. The peak was about 26,000.

Senator BULKLEY. You gave us a total of 271,996 foreclosures for the year. Now, I should like to know what it was, say, for the 6 months.

Mr. FAHEY. I think I can give you that exactly.

Senator TOWNSEND. Do you mean 26,000 for a month?

Mr. FAHEY. Let me get that data.

Senator BARKLEY. Will you just submit that as a part of your statement?

Senator BULKLEY. He has that data and can give it to us right now, as I understand.

Senator BARKLEY. I thought he might not have the data as fully as he would want it furnished.

Senator BULKLEY. He has that information all right, as I understand him.

Mr. FAHEY. Here are the figures: The high figure was 25,759 foreclosures in June of last year. It declined somewhat during the summer and got down to 20,916 by October. In November and December the figures turned up again. For December it was 22,259. It droppd again in February to 18,453 foreclosures. For the last month as to which we have figures, which is March of this year, it was 20,929, about what it was in April of a year ago. So that you will see it has dropped about 25 percent from the high. But it is still far in excess of what it was in what we may call a fairly normal year, 1926.

Senator BULKLEY. Do you think that drop was due largely to the work of the Home Owners' Loan Corporation?

Mr. FAHEY. I would say it was probably due in part to the Home Owners' Loan Corporation; yes.

Senator BULKLEY. Why do you think we have not been able to prevent still more foreclosures?

Mr. FAHEY. Because, before the Corporation came into action at all there was such an enormous accumulation of difficulties. In the case of farms, of course, you started far back of that. You did not begin on the urban-home problem really until last September, because while the Corporation was organized in June, or I mean it came into existence in June, it really did not get organized and going until August.

Senator BULKLEY. Don't you think the very fact that such a corporation was in existence would slow down foreclosures?

Mr. FAHEY. It has, without any question.

Senator COUZENS. Did that include foreclosures under the land contract? Did those figures include that sort of contract?

Mr. FAHEY. If you will permit me I should like to ask Dr. Metzke, who has charge of those statistics, to answer that.

Mr. METZKE. They did not include those foreclosures, Senator Couzens.

Senator COUZENS. There might have been a lot of land lost under that contract.

Mr. METZKE. Yes, sir.

Senator COUZENS. And you have no estimate as to what that was?

Mr. METZKE. No, sir.

Senator COUZENS. So that in all probability under the land-contract sale plan many homes reverted to the original seller because of default in the land contract.

Mr. METZKE. Yes, sir. Those are not of record, so we have no figures on them.

Mr. FAHEY. There is no doubt about that, because in your State of Michigan, Senator Couzens, among the great mass of applications from that State, we have many, and I cannot tell you the exact number, from those who have lost their homes, and under the provisions of the law they want to get them back.

Senator COUZENS. Can they get them back under the land-contract system, or do they have to have a foreclosure system?

Mr. FAHEY. Well, they can, as I understand it, get them back if the person who owns the land contract is willing. I mean, if it can be negotiated.

Senator BULKLEY. Can you say why you think we cannot bring down still more that number of foreclosures?

Mr. FAHEY. Well, I think that——

Senator ADAMS (interposing). Let me ask as a part of that question, what would be your estimate of the point to which foreclosures might have gone in number if it had not been for the Home Owners' Loan Corporation. While it is possible that you have not greatly reduced them from what they were before, yet it is possible you may have prevented an increase in the number of them.

Mr. FAHEY. I not only think, but I know there is no question that with the beginning of the activities of the Corporation thousands of foreclosures have been prevented. There is just no question at all about that. All over the country our experience shows that, because institutions that were getting ready to foreclose on properties have held up foreclosure in thousands and thousands of instances where

applications have been filed with us and there was a chance that we would refinance the mortgages.

Senator BULKLEY. I do not think there is any possible doubt in anybody's mind that the Home Owners' Loan Corporation has done an immense amount of good and has stopped many foreclosures. And the purpose of my question is not to try to put you on the spot or to criticise you at all, but to find out what we can do toward going further with it. That is the line of inquiry I should like to pursue.

Mr. FAHEY. I understand you exactly. Now, to just go a little further with the comments I was making relative to the mortgage-debt problem; I should make clear to the committee that as a result of the great accumulation of defaults which had developed before we began to do business at all, applications for relief poured in on us by the hundreds of thousands just as soon as we got our offices opened. And the result was that before the 1st of January we had on hand 719,267 applications, representing a valuation of $2,166,855,269. In other words, before the 1st of January applications had been filed with us in number amounting to nearly three quarters of a million and representing more than the entire resources of the Corporation. I mention these figures only as an indication of the size and character of this mortgage-debt problem.

Senator TOWNSEND. Could you state for our benefit what percentage of loans were made in response to those applications?

Mr. FAHEY. Well, I could give you that percentage exactly, but will say that in the handling of those applications to date between 25 and 30 percent of them have been eliminated because they were not eligible, or because the risk was so bad that we have no right to take them.

Now, on the other hand, this figure of 719,267 applications does not tell the whole story, because they represent only the applications which our managers permitted applicants to file for further investigation. The number who came into offices and wanted to file applications but who represented perfectly hopeless cases or applications that did not come within the purview of the law, would go far beyond that number. That represents applications before January 1 of at least a million in the country as a whole, of people who came in and attempted to file applications and those who were rejected or those who were not eligible.

Now, the difficulty about this situation as we see it is this: The maturing of mortgages is cumulative as a result of so many of them being short term. Also because of the inability of building and loan associations, which make the longer amortized mortgages, to refinance and renew to the extent which they would like to under other conditions, and which they would renew had they the reserves coming in to them to enable them to do it, which they are not doing.

It is perfectly plain, as we see it, that a Government institution like the Home Owners' Loan Corporation cannot face the possibility of refinancing half of all the urban-home mortgages in the United States, or even a quarter of them. It is almost impossible as a financial problem, and we do not feel that it ought to be attempted, it is fraught with such difficulties, and would bring about such complications. But we are convinced it is of the greatest im-

portance to take steps which will bring the private lending agencies back into action and to the carrying of the burden as they did before the crash, and to do it as quickly as possible and on as reasonable terms as possible.

We believe also that one of the most useful things which has resulted from the work of the Home Owners' Loan Corporation has been to head off a panic real-estate market and begin to stabilize values. That has begun to show its effects but it has not yet gone far enough. Just within the last 2 or 3 months we have begun to get reactions of stabilization of real-estate values and the development of a new demand for real estate and for homes. We are confident that this has been helped very much by the disbursement of the $650,000,000 that the Home Owners' Loan Corporation has already put out.

Obviously, every home that we take out of the distressed real-estate market relieves that situation. We can go on doing that, and feel it is important to do it. But as I said a few moments ago, we also feel that without delay it is imperative the insurance companies, mutual-savings banks, building-and-loan associations, cooperative banks, mortgage corporations, and individual mortgagees, should begin to function and to take over this burden as rapidly as possible.

If the further stabilization of real-estate value does not proceed; if foreclosures continue at anything like their present rate; if private lenders do not begin to take over loans, out of our experience our conviction is that by next spring we will see this wave of demands still flooding in on us, and we will have made no appreciable gain in stopping it. We feel that everything possible should be done to stop it now, and that by next year the work of the Home Owners' Loan Corporation as a purely emergency-relief agency can be shut off and the burden transferred to lending institutions, where it belongs.

Now, we feel also, out of such experience as we have had, and the demands for money for modernization purposes which I have explained to you, that the possibilities for useful employment of private funds for modernization, are of enormous importance.

There is just no question about it but that for 4 years now the homes of this country as a whole have been neglected. Under normal circumstances a home cannot be kept in proper shape unless something is done to it practically every year. That is what happens and what ought to happen under normal circumstances. Figures show that in the maintenance and repair of homes and the building of new homes about 1,750,000 men are employed annually under normal circumstances. Now, we all know that, as has already been explained to you, the employment in that field has dropped to less than 10 percent. There isn't very much room for debate as to what has happened. For example, here are the dependable figures of the Bureau of Labor Statistics, from 1922 to the end of 1933, relative to the issuance of permits for residential buildings in the 257 cities from which they have been gathering these statistics for years. These figures show that from a total of 462,214 building permits issued in 1926——

Senator TOWNSEND (interposing). Was that the high-water mark of building permits?

Mr. FAHEY. Oh, no.

Senator TOWNSEND. All right.

Mr. FAHEY. The high-water mark was in 1925. In that year it was 491,222, and it dropped down substantially in 1926 and it declined steadily from 1926 to 1929. Contrary to the popular impression, 1928 and 1929 were not in any sense boom years in the construction of homes. Those years were below the average and the normal.

But from the figure of 462,214 building permits issued in 1926, the Bureau of Labor Statistics reports in those 257 cities a drop to 24,557 in 1933.

Now, that alone it seems to us—and there is an abundance of other supporting evidence which is equally conclusive—that alone in our judgment gives us some line on what the situation is as to the need and the demand. It is quite clear to us from our experience that there is a very general demand for money for modernization purposes. We do not find a single one of the mortgage-lending institutions that is not in agreement on that. Insurance executives, mutual savings banks, building-and-loan associations, and all the rest of them are in agreement on that side of the problem.

There is little doubt, too, that in the various sections of the country there is a demand for new construction which is necessary and justified. That to the best of our knowledge and belief is spotty. It is rather difficult to estimate. But you get some indications of its existence out of some of the incidents which have happened in the last few months. For example, in one of our large cities a Federal building-and-loan association was recently organized. Its organization attracted but very little attention in the daily press. There were only brief notices to it, no advertising or anything else of that kind; and yet with 3 or 4 days the president of that association received more than 200 applications for loans for new construction and for modernization. The last I heard from him they had carefully examined 150 of those applications, and they were applications that were not bad, but more than 75 percent of the 150 they had examined were good risks, would be good loans, loans of the kind they would want to make. They had that experience in spite of the fact that lending institutions in that area had for months been saying they were ready to make good loans but that nobody wanted money.

In another case, in one of our cities of substantial size, following a meeting of one of the associations, a story was printed in the newspapers that they had some millions of dollars on hand now for loans for new construction or for modernization, and we are informed through one of our regional banks that as a result of that comparatively modest announcement in that area alone they received more than 1,400 applications within a week.

The private lending institutions since the first of the year, in the case of those in the various sections of the country which have money, have shown a definite disposition to make it available. They are cautious about it, of course, but they are nevertheless making it available, and contrary to the general attitude which existed last year, we have, for example, been able to enlist the interest of leading life-insurance companies and some of the mutual savings banks and com-

mercial banks to consider taking over from closed banks a part of these loans that we have been trying to deal with. That is, at least the so-called "good loans", or those concerning which there can be no doubt. That we regard as an encouraging incident, because, as I have said, only a few months ago there was a general reluctance on the part of lending institutions to step in and take any risks at all.

Reverting to the suggestion I made at the outset, therefore, we feel that this is not only a debt problem but is an employment problem, and there really exists an opportunity for useful employment and productive employment.

The other thing that we feel is of great importance is that under the leadership of the Federal Government, because in our judgment that leadership can come only from the Federal Government, the time has arrived when we ought to attack the housing problem of the country as a whole from a really enlightened and constructive standpoint.

The impression of many is that because of the wealth and the resources of this country we have the best homes in the world. That is probably true so far as the so-called "better classes" are concerned. But anyone who is familiar with the problem and the facts knows perfectly well that, so far as taking care of the low-income groups of this country is concerned, we are far behind the more progressive countries of Europe in dealing with the housing problems. The surveys which had been conducted, and which have been pretty carefully made over the years, show pretty clearly that about a third of the houses in this country at least are substandard and are really not fit for habitation from the standpoint of the views of the American people. Certainly England and France and Germany and Italy have gone much further than we have ever gone in developing programs for the better housing of our workers, and that includes white-collar workers and people of moderate incomes. And it is necessary to keep in mind that under ordinary circumstances three fifths of the houses built in this country in a normal year are of less than $5,000 in value and the most of them under $4,000 in value.

Moreover, it is the poor man who has paid the high price for his home and who has gotten the poorest value. He is the one who has to bear the burden of the second mortgage, because, generally speaking, he hasn't the 40 percent of savings or equity to put up to care for a mortgage negotiated through an insurance company or a mutual savings bank.

In thousands of cases we have been dealing with the country over we have found that the first mortgage on a home has represented the entire cost of the house and the land, a substantial profit to the builder, and any number of fees in between which come in as a part of the cost; and then there is a second mortgage on top of it before the home owner had any equity at all, and which represented no value whatever, but was just a speculative profit on the part of the holder of the second mortgage.

Now, I would not wish to be misunderstood for a moment to indicate that all second mortgages are unsound and unfair. That is not so. In many instances the second mortgage has played a very important part and a very necessary part in home construction in this country as it has developed up to date. But so far as it is humanly

possible in the future to eliminate secondary financing of that character, it ought to be done. It has been done in other countries to a very large extent, and there is no reason why it cannot be done here.

Senator BULKLEY. What is there in this pending legislation that will protect the home owner with respect to the price he pays for his home?

Mr. FAHEY. Why, there is nothing in here that directly protects him in that respect except this: First, under your proposals for insurance of individual mortgages on new construction the mortgage insurance corporation would have to be in touch with the commitment from the beginning, I mean from the time the plans were submitted, as I think was explained to the committee by Mr. Watson when he was going into the details. Therefore the insurance corporation would know that the cost of the house was fair, that it would be a fair value; and satisfactory evidence would have to be submitted before the insurance was granted that it did not represent inflation of cost but represented full value.

Now, you will remember that the proposal for insured mortgages allows for loans up to 80 percent.

Consequently there is a very substantial protection to the home owner under that proposal. In the same way, so far as the building and loan associations are concerned, cooperative banks, and homestead associations, of course, for years they have been making the amortized loans, up to 65, 75, or 80 percent, and they have, to a substantial extent, through the elimination of the second mortgage, contributed in a very constructive way toward a better handling of the mortgage problem. They can undoubtedly go further, and we find evidence not only of their desire, but of the fact that they are constantly going further toward a solution of this particular problem.

But what I was trying to say, Mr. Chairman and gentlemen, was this, that the task of dealing with the substandard home in the United States, the home which ought to be revamped and modernized, and the new home which should be built to meet the demand which we certainly will have to face here before long, is not a matter of a year, or even 5 years or 10 years, but is a program of 15 or 20 years ahead, in our judgment. We think it is a very important problem, having a vital influence on the question of recovery. We all know that outside of the curative processes which develop in connection with every depression, and which finally begin to have some effect, the rapidity of our recovery in this country has been advanced repeatedly by developments in new directions which have stimulated production. Most of us are familiar with those—the gold rush, the building of the railroads, the development of the automobile industry—all those things have had an enormous effect in certain periods in the history of this country.

It is my personal opinion that if we really tackle it with determination and constructively, it is difficult to find any direction in which we can be more helpful and do more constructive work than in attacking the housing problem of this country in a truly imaginative way. It is not alone slum clearance, but it is more particularly the individual home and the 2-family home, as well as the low-cost apartments—not the big and extravagant things. But, like everything else, we need to consider this problem from the standpoint of

the 85 or 90 percent of the people of this country who are our consumers, and not from the standpoint of the well-to-do, who, even under the difficulties through which we have been passing, and despite the sacrifices that they have had to make, have been able to take care of themselves reasonably well, as compared with the great mass of our people.

So far as the situation of the private lenders is concerned, we confront a situation which is entirely different from that which we had to face a year ago. Our banks were closed, courage was at a low ebb, and everyone was frightened. No one knew what to expect next. Today we have a change which represents the greatest change that has ever taken place in history in any depression within any corresponding time. There are greater resources in your commercial banks than ever before in the history of the United States. As Mr. Eccles pointed out to you here on Saturday, the opportunity for credit expansion, making credit available to our people, is without parallel in our history. The National Association of Savings Banks, meeting in New York last week, reported that the deposits in the mutual savings banks of the country were back again to peak, and that before the 1st of July, in their judgment, a new record of deposits in the mutual savings banks would be established.

Insurance companies have large funds in hand and available. All of these institutions, however, have been in an attitude of hesitation until now. Generally speaking, they have been fearful that despite the recovery which the real-estate market has shown so far, it might turn downward again, and so they have been reluctant to come in and use their funds.

Another difficulty is that so large a proportion of them can make loans only up to 50 or 60 percent of appraisals. Most of the insurance companies and the mutual savings banks are estopped from going any further than that by the State laws in their practice for years.

That impairs the ability of the average buyer to either purchase real estate which is in the market, or to undertake new construction, because the number who have 40 percent in cash or equity which they can employ now is obviously very much less than what it was 4 or 5 years ago. In most cases, therefore, they are in need of a larger proportion of financing than that represented by a 50- or 60-percent mortgage. That is one handicap to the activity of these large mortgage lenders in meeting the situation as it exists today.

Meantime the building and loan associations which, after all, over the years have provided the financing for over 60 percent of the small individual homes of the country, have not only been handicapped so far as their ability to help is concerned, but their situation has been impaired progressively by the developments of the last few months. The savings banks and the savings departments of the commercial banks have come under the provisions of the deposit-insurance act. There is no corresponding protection for the building and loan associations, cooperative banks, and the so-called "homestead associations."

The result is that as shares mature the savers withdraw their money, and it is proven conclusively that they invariably take their checks to the savings departments of the commercial banks or to the

mutual savings banks, and the money goes into those institutions. It cannot come out of there again except for 50- or 60-percent mortgages. It is not available, as it has been, through the building and loan associations to refinance mortgages or to make new loans up to 70 or 75 percent, as would normally be the case.

Not only that, but under those conditions the savers in these communities are not taking their money to the mortgage-lending institutions of this type. They are taking it to the insured institutions. There, as I have explained, it is not getting into action. It is for this reason that our Board has recommended a mortgage-insurance plan for the cooperative banks and the building and loan associations. And we would point out that, as in the case of the mutual savings banks and, to a larger degree, in the case of the savings departments of the commercial banks these institutions are essentially the savings institutions of the laborer—the small man who puts in his $2.50 to $5 a week. The figures show that there are about eight savers in these institutions to every borrower; in other words, that eight workers of all classes are putting in their small sums to be accumulated and loaned for the financing of homes.

In our judgment, it is not only necessary that that thrift should be encouraged and that these institutions should be in a position to help, but we also believe that if there is any class of savers in the United States who should receive the maximum of protection so far as their savings are concerned it is the class of workers. From every standpoint, therefore, in our judgment there ought to be an insurance plan for those institutions.

We have struggled with the problem presented, and the measure we have offered here is the best that we have been able to evolve. It may be defective in some respects. We think it is conservative, and that it represents very little danger so far as the mortgage phase is concerned, and we are convinced that it ought to be enacted into law as quickly as possible. Our belief is that if we cannot take a protective step of this sort by next year, it is inevitable that more and more funds will come out of the building and loan associations and cooperative banks, and will lie idle, or will not be used as they should be, normally, in home financing. Moreover, that the funds will not be flowing into those institutions, but will continue to come out, with the result that they will have to turn over to the Home Owners' Loan Corporation more and more loans to refinance. We feel that it will be extremely unfortunate if the number of loans that we are asked to refinance increases instead of declines over the rest of this year and early next year. Normally, it is our judgment that the applications ought to begin to move downward rather rapidly, and on the basis of the best information we have been able to gather from all over the country, our belief is that if some of these measures which we have put forward here can be made effective, they will stop the wave of foreclosures and turn this thing back in the other direction, and that is what we are convinced has got to be done.

I do not know whether it is necessary for me to impose on your patience any further in trying to embellish this lily.

The CHAIRMAN. Will you state just how that is to be done, Mr. Fahey? You say this tide should be turned back the other way. How do you propose to accomplish that?

Mr. FAHEY. We are convinced that, first of all, if under the provisions of this bill the modernization plan is approved, it will have a very definite influence on employment and the circulation of money; that it will have an important psychological effect, because, when you start people at work in communities all over this country remodeling and improving homes, in our opinion it is going to stimulate a lot of other people who have the resources and do not need to borrow at all to begin similar work. We are getting letters very frequently now from cities and towns referring to the useful community effect that has developed from our repairing of homes that we have taken over. Only Saturday I had a long letter from Georgia and an editorial from one of the newspapers down there on that very point. We can do a lot of that kind of thing, but that is not anything to what can be accomplished if this modernization program is really started in an energetic way and the moneys made available.

Beyond that, of course, this proposal of the insurance of individual mortgages is a novelty. None of us who have been giving it attention believe that there is going to be a general demand for its immediate use. All the experience of the past indicates that it takes a little time for these things to develop.

The CHAIRMAN. Will those mortgages be confined to homes, or will they extend to business properties?

Mr. FAHEY. They are confined to homes under the terms of the bill, except so far as low-cost housing is concerned, and slum clearance, which is provided for, as you know.

Senator TOWNSEND. Is the insurance confined to amortized mortgages?

Mr. FAHEY. It is limited to amortized mortgages.

The CHAIRMAN. Would it reach a case like this: Here is a man who owns a piece of property. He considers it worth, say $150,000. There is a mortgage on it for $45,000 with an insurance company, and the mortgage is coming due. Would there be any way, through these national mortgage associations that you propose to establish, to reach that sort of problem, whereby that sort of problem could be taken care of?

Mr. FAHEY. No, sir. This project is confined thus far wholly to homes and housing. It does not take in business property at all.

Senator BARKLEY. You mean that part of the bill about which you are now talking.

Mr. FAHEY. Yes. So far as modernization is concerned, it is not restricted to home, but may be utilized, within the limits provided, of course, for small improvements to business properties.

You have heard Mr. Watson. I do not know whether you have heard Mr. Riefler yet or not.

Senator ADAMS. Yes. He was on the stand.

Mr. FAHEY. I assume, therefore, that he has explained in detail the operation of the individual mortgage plan, and the insurance, so far as the modernization funds are concerned, and also the operations of the suggested national mortgage associations. Mr. Horace Russell, our general counsel, I believe, has gone into detail relative to the insurance plan for the cooperative banks and building and loan associations, to which I have referred. I have already tried

to explain the necessity for that plan. I do not know, therefore, whether there are any other detailed matters in connection with these proposals that you would like to ask me questions about.

The CHAIRMAN. Mr. Fahey, with reference to the national mortgage associations, do you propose to have those established in different parts of the country? Each charter or articles of incorporation has to be passed upon by your board.

Mr. FAHEY. Under the terms of the act, Mr. Chairman, the national mortgage association could be established anywhere. It would have to have at least $5,000,000 of cash capital. Its charter would——

The CHAIRMAN. Do you not think that is rather high? It is not very easy to raise $5,000,000 cash. Would you not favor making that $1,000,000, or even $500,000?

Mr. FAHEY. Our feeling about that, Mr. Chairman, has been that such associations should be of such strength financially that there could be no question about their stability. You will observe that under the terms of the bill they can take over and handle only the issued mortgages. Having insured mortgages in their portfolios, they could, if they wished, issue bonds against them, thus obtaining new funds which they could loan. It was the conviction of those of us who worked on this plan that because of some dangers which have developed in the past in the operation of such corporations it was absolutely necessary, if the mortgages of such associations were to be insured, that the organization of these associations should be surrounded with every possible safeguard and that no risk should be taken in connection with them.

You know that the privately exploited guaranty mortgage associations which have been in existence in many parts of the country have had rather an unsatisfactory record. That experience has undermined public confidence somewhat, and we felt that associations along these lines could not be successful, and ought not to be permitted unless they were subject to such restriction and supervision as to preclude the possibility of the development of any such evils as have characterized the operation of similar mortgage companies in the past. That is the reason why, Mr. Chairman, under the provisions of this act, it was suggested that they should be required to have such capital that they would have to be cautious and have to be safe, and that they should also be under the supervision of the Home Loan Bank Board, so that the Board would be able to protect the public from the development of excesses of any kind.

Senator BANKHEAD. Are branch offices permitted?

Mr. FAHEY. They would have to have branch offices, Senator, to service these mortgages successfully, in our judgment, although, of course, such an association could, we assume, operate through lending associations already in existence, just as the insurance companies do.

So far as our Board is concerned, I am sure it is the feeling of the Board—and I am equally confident that none of the members of the committee which has considered this matter would feel that it was safe or wise to permit the organization of national mortgage associations except on a conservative basis; that if shoestring operations were permitted, or there was any opportunity for that development,

it would be exceedingly dangerous. I am quite sure that I am not overstating the attitude of the committee in that respect.

Senator BARKLEY. Mr. Fahey, assuming that this bill is enacted into law substantially as drawn, with such amendments as ought to be put into it, if any, and assuming that if enacted it is reasonably successful, what would be the condition with reference to the construction enterprises and manufacturing concerns connected with it directly and indirectly if no such legislation should be enacted at all? How long will it be before private capital, relying wholly upon its own initiative, will begin to take up this slack with respect to improvements, renovation, and repairs, contemplated to be brought about under the initiative of this legislation?

Mr. FAHEY. Senator, it is my conviction, out of a great many conferences with the representatives of the large lending institutions of the country, and the meetings of our Board, with the leading bank commissioners of the country, as well as the insurance interests and all the other mortgage-lending institutions, that that will be a very slow process; that it will not move with satisfactory speed except under the stimulation and initiative of Government action along these lines. It will come about slowly but surely. But meanwhile we will be paying the price for it in unemployment and the lagging of recovery.

Senator BARKLEY. Will it not lag further behind than almost any other branch of industry if left to its own devices?

Mr. FAHEY. The construction industry, as the evidence shows, has already lagged behind further than any other industry, and from the standpoint of a sound economic system, it has already been allowed to lag too long. Our difficulty is in that industry, so far as employment is concerned, and in the so-called "capital-goods industries", which thus far have moved very little.

Senator TOWNSEND. Mr. Fahey, you have found no opposition coming from commercial banks to this legislation, have you?

Mr. FAHEY. None whatever.

I should like to say this in conclusion, gentlemen. The question has been raised here, and elsewhere, as to whether the people will take advantage of the opportunity and use money, if it is provided, for modernization and repair, and whether they will build homes if given a chance to finance themselves. I want to say most emphatically in response to those questions that, first of all, our own experience, as I have endeavored to explain, shows that there is a substantial demand for funds for modernization among the mortgagors with whom we come in contact. Secondly, that every mortgage lending interest in the country with which we have been in contact is in agreement that there is a large opportunity for modernization work. Third, that there is a general agreement that the demand for new housing, new construction, is perhaps limited, and is spotty, but that no one knows exactly what it is.

Certainly a shortage has been developed here as a result of the fact that there has been no new building for 5 or 6 years, and that vacuum will have to be filled sometime. Not only that, but, first of all, people begin to buy when the market begins to strengthen. They do not begin to buy, and they do not begin to spend their money, in a declining market. It is when it begins to go the other way that they act.

Furthermore, I think we make a mistake in our consideration of all these questions of recovery, by laying too much emphasis on the difficulties and on unemployment, rather than considering what may be done and what we ought to do with the resources of those who are at work and who have money to spend. After all, let us agree that we have 8 or 10 million out of work in the United States. And when we discuss that figure, we should always remember that a certain indefinite number, which has never yet been determined in any accurate way, are unemployables, and are out of work all the time, even at the very peak of production. Consequently these figures to which we refer, and the importance of which I do not want to underestimate, are not as terrible as they seem to be.

Senator GOLDSBOROUGH. That quota of unemployed runs from 2 million to 4 million, does it not, Mr. Fahey?

Mr. FAHEY. It is difficult to say. I have served on a number of committees back over the last 10 to 15 years, who have endeavored to get at the facts with reference to that, and I have never seen anybody who did it yet, and I do not believe that there are any dependable figures on the subject.

Senator TOWNSEND. It is very large.

Mr. FAHEY. Yes. It is just like this debatable question of overproduction, which many of us do not feel is debatable at all. I do not believe, generally speaking, there has ever been any such thing as overproduction, and I am confident the figures show it. Another debatable question is the extent to which new inventions have displaced people and thrown them out of employment. In my judgment that is all rot, and I have served on a dozen committees over the last 20 years that have gone into that. I say without hesitation that no proof of that is forthcoming, and there just is not any basis for it.

What I am getting at, Mr. Chairman and gentlemen, is this. After all, we have a tremendous army of people at work in this country right now, and a lot more of them than 8 or 9 or 10 months ago. They are being paid good wages, and they have had their wages increased, and they have money to spend. They are to a substantial extent afflicted by the same caution and reluctance that we find on the part of our bankers and others. In other words, this problem, like pretty nearly every other problem in connection with the whole depression, is to a very considerable extent a matter of psychology. Whatever we can do to change the attitude of mind and, by work and by effort, establish greater confidence in the minds of our people and arouse them to use the resources which they have available, will bring results. My firm convictions on that particular point are strengthened by years of experience in seeing what good advertising does when people have the courage to advertise and go out and get business. For 5 years now most of us have been waiting around for somebody to come and pull the doorbell wanting to buy something. Business is never stimulated or developed by that method, and has not been for more than a half a century.

In this particular matter, therefore, I feel, and I am confident that every member of our Board, and everybody in this group which has been studying this particular project, feels that the thing to do is to move out after business, and to do something of a constructive and imaginative character here, and not just wait for things to take

care of themselves. We do not feel that there is any direction in which it is possible to move that is productive of greater possibilities than this is. We do not say it is a cure-all. Anybody who studies the problem, in my judgment, is obliged to agree that recovery from depression is not accomplished by writing any one prescription. It must comprehend activities in a great many directions. This is one which, up to now, has been neglected, and it is one of the most important in the lot.

The CHAIRMAN. How many regional banks have you, Mr. Fahey?

Mr. FAHEY. Twelve.

The CHAIRMAN. In the different portions of the country?

Mr. FAHEY. Twelve sections of the country.

Senator BULKLEY. How many foreclosures of homes did you say there were in the last month—20,000, was it?

Senator ADAMS. 20,929 in March 1934.

Mr. FAHEY. 20,929.

Senator BULKLEY. How many of those were loans that would not be good enough to be taken over by the Home Owners Loan Corporation?

Mr. FAHEY. It would be impossible to say, Senator. Those represent the cases in which we have not been able to move fast enough. I mean those are cases where the mortgage lender was not willing to wait until it could be seen whether the Home Owners Loan Corporation could take hold or not, or they were hopeless cases.

Senator BULKLEY. What month was that?

Mr. FAHEY. March.

Senator BULKLEY. How many did you take over during that month, if you know?

Mr. FAHEY. In that month we took over 34,331 mortgages, in a total amount of $97,000,000 plus.

Senator BULKLEY. You took over 34,000 and there were 20,000 foreclosures?

Mr. FAHEY. Yes.

Senator BULKLEY. That is a pretty good record, but I am still anxious to probe further into why——

Mr. FAHEY. Hold on a minute. It was better than that. I have the wrong figure. In the month of March, that same month, we took 46,379, amounting to $132,504,523.

Senator TOWNSEND. Go back to February and see how the months compare.

Mr. FAHEY. As compared with February, that represents an increase of 13,000 loans and $35,000,000 in a month.

Senator TOWNSEND. March exceeded February by that much?

Mr. FAHEY. Yes. Of course, it has risen steadily since then. I can give you some idea of the rate at which these loans have gone up, when I tell you this: That for the first months that the Corporation was in operation—that is, up to December 1—we had closed a total of 15,105 loans amounting to $44,518,611. In the following month of December we closed 20,790 loans, or more than double that of all the previous 5 months. The amount of money disbursed was $58,369,211, or about $18,000,000 more than in all the 4 or 5 months previously.

In our next month, January, it stepped up again. A total of 27,119 loans were closed amounting to $76,330,890. In February it

went up $20,000,000 more. We closed 34,331 loans amounting to $97,006,826. In March it increased to 46,379 loans in the amount of $132,504,523.

Senator TOWNSEND. Have you the figures for April?

Mr. FAHEY. Yes. In April it went up again by 13,000 loans, and the figure was 53,823 loans amounting to $164,940,087. In other words, for the month of April alone we closed more than 500 percent more loans than in all the period up to December 1.

Senator GOLDSBOROUGH. Mr. Chairman, I would suggest that it would be helpful if Mr. Fahey were asked to prepare a table giving this information, so that it may be inserted in the record.

Mr. FAHEY. I would be glad to do that, Mr. Chairman.

The CHAIRMAN. Very well. We will have that done. What is the volume of applications now, Mr. Fahey, each month?

Mr. FAHEY. Unfortunately the number of applications still continues strong. Up to May 11 the total number of applications which the Corporation has in hand is 1,343,194.

Senator TOWNSEND. Which have not been acted upon?

Mr. FAHEY. No; that is the total number of applications. I will deduct from that what have been acted upon. The total amount of those applications is $4,300,684,929. Now, in considering those figures it should be explained that out of our experience about 25 or 30 percent of these applications dropped out. Some of them are ineligible. A substantial number we are able to prevail upon the banks and others to refinance. Others are withdrawn for other reasons. So that, generally speaking, we can cut off about one third. At the moment, therefore, we are confronted with demands for a little more than 3 billions in loans. I mean that is the total of the problem as it stands with the Corporation at present, and, of course, the number of applications is continuing to flood in.

Senator BULKLEY. Have you the figure as to how many you have turned down?

Mr. FAHEY. Yes.

Senator TOWNSEND. Are the applications increasing all the time now?

Mr. FAHEY. They increased since the first of the year. March and April represented the heaviest volume we have ever had from the opening of the corporation. They represent about $500,000,000 a month.

Senator TOWNSEND. I beg your pardon for interrupting.

Mr. FAHEY. Answering Senator Bulkley's question, 32,017 applications were withdrawn up to May 11. You may recall that in discussing this question of applications I said that these figures were not fully representative, because in all the offices a large number of people who come in and attempt to apply are not allowed to apply. Consequently these figures of applications represent those that are apparently eligible. When they are allowed to fill out an application, then the application has to be examined to see whether it is eligible or whether it is worthy of being further considered. Out of that up to date 32,017 have been withdrawn and 66,403 have, after examination, been rejected before we made any appraisal. So that, in round numbers, about 100,000 have been thrown out, leaving this

residue that we have at present. That leaves the net amount still, does it not, Doctor? Is that figure before or after?

Mr. MERTZKE. That is before.

Mr. FAHEY. That is before reduction, so that our figure of 1,343,000 is subject to a deduction of 100,000 that are out.

Senator BULKLEY. How many have been acted on favorably?

Mr. FAHEY. The total number of loans closed is 231,968, as of May 11. The amount of the disbursement was $681,052,741.

Senator BULKLEY. That leaves almost exactly 1,000,000 yet to act on, according to that.

Mr. FAHEY. Yes.

The CHAIRMAN. What has been the effect of the legislation under which the Government guarantees the bonds?

Mr. FAHEY. It has facilitated the exchange of bonds for mortgages. The mortgagees who had held off and who had declined to accept the bonds, or who were reluctant about it, of course, are now ready to accept, inasmuch as there is an immediate market for those bonds at better than par.

The CHAIRMAN. It increased your business.

Mr. FAHEY. It certainly increases the facility with which we can do business, because heretofore there has been a long period of wrangling with most mortgagees over the question of the bonds, and we had to sell them the idea that the bonds were worth 100 cents on the dollars, which was the only basis on which we could issue them.

Of course, it should be explained that in a very large proportion of the cases, before we close these loans, our officers have to negotiate reductions of the mortgagee's claims, because such a large proportion of these first and second mortgage claims are out of line with any reasonable valuation based upon our appraisal. That is one of the reasons for delays that we hear about. Of course, we have overcome that delay by increasing the number of competent appraisers and the number of competent attorneys, and speeding up by more rapid consideration of the applications, but there is a certain lag inevitably in the handling of every loan here, and it just cannot be disposed of safely over night.

The CHAIRMAN. One of your purposes, as I understand it, is to stimulate the activities of the building and loan associations, which would have the effect of greatly relieving the demands on you.

Mr. FAHEY. Yes, sir. What we are looking to relative to those measures is not the immediate problem of the Home Owners' Loan Corporation, but forestalling, if we can, the continuation of this demand, or an increase in it next year. We feel that we ought to clear up everything we can here as rapidly as possible, and get out of the purely relief activity.

Senator BANKHEAD. Mr. Fahey, the success of this program will depend largely on the proper organization of the national mortgage associations, will it not?

Mr. FAHEY. Oh, no; not that exclusively, Senator.

Senator BANKHEAD. I did not say exclusively.

Mr. FAHEY. That is only an incident.

Senator BANKHEAD. What importance do you attach to that organization?

Mr. FAHEY. It is difficult to say. It is difficult to say how many of these associations would be formed.

Senator BANKHEAD. Have you explored the field any to ascertain the availability of capital for these organizations, or the prospects of organizing them?

Mr. FAHEY. Mr. Riefler and Mr. Watson and Mr. Eccles, who have devoted the most attention to that phase of the problem, have. I understand that they have talked with a great many interests who feel that if the opportunity is afforded they will be prepared to raise the capital, provide the capital, and to proceed in this field. I am not so familiar with that as these other gentlemen are.

The CHAIRMAN. Is that all, Mr. Fahey?

Mr. FAHEY. It is all that I wish to say, Senator, unless there are some other questions you wish to ask me.

The CHAIRMAN. I think you have covered the ground very comprehensively. We are very much obliged to you.

Mr. FAHEY. As I understand it, the committee would like some figures and charts which will show clearly the operations of the Home Owners' Loan Corporation in the handling of these loans up to date, the figures on foreclosures, and the figures on building permits, and so forth.

Senator TOWNSEND. And applications for loans.

Mr. FAHEY. And applications for loans. We will be very glad to bring to the committee not only some figures but I think we can give you some charts that will show that thing very graphically, and we will be very pleased indeed to do it.

The CHAIRMAN. We will be very glad to have it.

Mr. FAHEY. We are rather proud to say to you, in this connection, by the way, that under Dr. Mertzke, who is the Chief Economist of the Federal Home Loan Bank Board, we believe that we have developed the most comprehensive and reliable source of information, statistically, on this whole housing- and mortgage-loan problem that has yet been developed anywhere in the country. We are glad to say to you that we have received very generous cooperation from the large insurance companies and the bank commissioners and from everybody concerned in attempting to get together reliable information. As a matter of fact, like a great many other things in the field of statistics, until recent years there have been great gaps in the figures, and there has just been a lot of guessing about it. A lot of valuable information is still missing, but we have been making steady progress on that, and we will be glad to present to the committee anything that we have that you think you would like to know about.

The CHAIRMAN. Very well. If you will hand that in, we will put it in the record, Mr. Fahey.

(The matter above referred to is as follows:)

Estimated[1] number of urban homes foreclosed in the United States, by months, during the years 1926, 1932, 1933, and 1934

Month	1926	1932	1933	1934
Total	78,356	273,384	271,996	
January	5,581	19,582	24,273	20,689
February	5,381	18,834	22,485	18,453
March	6,502	21,970	22,438	20,929
April	6,632	23,574	20,520	
May	6,287	21,976	25,528	
June	6,889	24,548	25,759	
July	6,245	22,595	22,523	
August	6,520	23,932	22,894	
September	6,915	25,281	20,951	
October	6,665	22,404	20,916	
November	7,103	23,959	21,450	
December	7,636	24,729	22,259	

[1] Based upon reports received monthly by the Division of Research and Statistics of the Federal Home Loan Bank Board from recorders' officers and other local governmental officials in 1,058 communities scattered throughout the United States, and including 54.1 percent of the population of the country.

Number and amount of applications received and loans closed by the Home Owners' Loan Corporation from date of opening to May 18, 1934[1]

Period	Applications received		Loans closed	
	Number	Amount	Number	Amount
From date of opening to Dec. 1	634,948	$1,897,679,823	15,520	$44,888,557
Dec. 2 to Dec. 31	84,319	269,175,446	20,790	58,369,112
Jan. 1 to Jan. 26	102,271	323,196,569	27,119	76,333,890
Jan. 27 to Mar. 2	173,881	588,829,252	40,562	115,715,613
Mar. 3 to Mar. 30	150,592	534,640,640	46,379	132,504,523
Mar. 31 to Apr. 27	139,573	491,354,862	53,823	164,940,087
Apr. 28 to May 18	84,100	278,208,064	42,142	135,899,310
Total	1,369,684	4,383,084,656	246,335	728,651,191

[1] Prepared by Division of Research and Statistics, Federal Home Loan Bank Board, Washington, D.C

(A chart submitted by Mr. Fahey will be found on page 130.)

The CHAIRMAN. Mr. Harry E. Karr, counsel of the Real Estate Board of Baltimore, wants to be heard for a few minutes. Is Mr. Karr here? Our time is very limited, Mr. Karr. We have one or two other people that we want to hear, if we can, before 1 o'clock.

STATEMENT OF HARRY E. KARR, REPRESENTING REAL ESTATE BOARD OF BALTIMORE, BALTIMORE, MD.

Mr. KARR. Mr. Chairman, I will try to be just as brief as possible.

I have listened with a great deal of interest to Mr. Fahey, and I think what he said in the last 10 minutes is probably one of the keys to the situation; that is, in reference to your unemployment.

I think we are all agreed that the matter of new money for construction is a matter more or less of timidity and a matter of psychology. That there is a real need for rehabilitation is absolutely true. Personally I think the matter of rehabilitation, from the standpoint of the average city, is a most necessary thing, because it goes to the very fundamentals of city government and the economics of the city, because when you have deteriorated property you have less taxation, and you have a gradual moving out into the suburban districts and beyond the city limits probably on the part of the home owner.

What the Home Loan Corporation has done in the matter of the building associations has been exceedingly helpful, and the building associations appreciate it, and I think have, in the main, cooperated to the fullest.

Coming down to the bill that is before you——

The CHAIRMAN. May I inquire right there, Mr. Karr, why is it that building and loan associations seem to be on a dead center and not functioning? What is the trouble?

Mr. KARR. May I answer it this way, Mr. Chairman? Fundamentally the trouble in this country with the matter of lending money on mortgages has been due to the fact that there has been no place in which long-term rediscount could be had until the home-loan bank was set up. The general crash that has occurred in the real-estate market, and especially the mortgage market, was due to that fact, plus the very uneconomic thing that they did, and that was the undertaking of the guaranteeing by private capital of mortgages. It never was sound. There was no basis for it. There was no reason why it should have been done. It started, I think, in Baltimore. I think the first guarantee-mortgage company that was set up was set up in Baltimore, and it was simply an idea, a scheme, and nothing else.

The CHAIRMAN. Why should the Government enter that field?

Mr. KARR. I do not think it ought to. A mortgage is just one of the things that you cannot guarantee. When the real-estate market completely goes to the bad and crashes, there is not money enough in this country or any other country to sustain mortgages at an even level. They have got to take the go-down, just the same as any other security or any other commodity.

The CHAIRMAN. How can you justify rediscounting, then?

Mr. KARR. You can justify rediscounting because of this fact: That if mortgage loans are extended over a long period of time, the home is one thing that always comes back. That never fails. When it does fail, then this type of civilization will probably cease to exist.

Senator GOLDSBOROUGH. Human interest in it is stronger than anything else.

Mr. KARR. Human interest is one factor which will always bring it back. If a mortgage company has proper rediscounting facilities, that can be continued over a spread of years, and they are not called, then you can wait and ride back and bring your mortgage back to its full normal value. In every depression that we have had in the past that has been practically the situation so far as the building associations were concerned. The average building association, up to the past 10 years——

Senator GOLDSBOROUGH. One moment, there. Will you not state for the record the number of building and loan associations in Baltimore city?

Mr. KARR. The number of building associations in Baltimore city is close to 600.

Senator GOLDSBOROUGH. May I ask this further question: Is not the percentage of home owning in Baltimore larger than in any other city in the country in proportion to its population?

Mr. KARR. It is. Baltimore has the largest number of home owners, in proportion to its population, of any city in the United

States, and in the past depressions the building associations have been able to come back, because they have been a steadying influence, and they have been able to carry their mortgages without much difficulty because very few of the building associations, prior to 10 years ago, had any extended credit with any bank, or even went into any bank. They picked up their money from their free shareholders, who deposited weekly sums.

The CHAIRMAN. What proportion of those building and loan associations are moving along normally now, Mr. Karr?

Mr. KARR. Out of the 600 in Baltimore city?

The CHAIRMAN. Yes.

Mr. KARR. There are over 100 of them that have already become members of the home-loan bank, which is the rediscounting bank that they can belong to. They had to be in absolutely A–1 condition. Otherwise they could not become members. There has been a hesitancy on the part of a great many of our building associations in Baltimore to become members of the home-loan bank, because we have had an emergency act which was passed by the Legislature of Maryland in 1933. That act provided that building associations did not have to pay out to free shareholders any more than they collected in from borrowers, and that would extend until June 1, 1935. Most of the building associations have held back from going into the home-loan bank, the rediscount bank, because they felt that if they did go into it they would have to immediately open up a 100-percent basis and pay their free shareholders, and they were afraid, to that extent, that the free shareholders would probably withdraw a great amount of the money on deposit with them.

I would say of the building associations in Baltimore city that there are certainly not over 10 percent of them that are in bad shape, or in a shape where they will have to probably liquidate. I think, so far as our associations are concerned, they will weather the storm, and as they gradually become members of the home-loan bank they will be able to pay out dollar for dollar, provided you do not pass an act of the type you have here. If we have all got to go into the insurance fund, it will mean the liquidation of the majority of our building associations. I do not think there is any doubt about that, because we work on a mutual basis. All we can get for money loaned is 6 percent, and every dollar that is earned, with the exception of a very small percentage, which is less than one tenth of 1 percent, which goes for expenses, is paid out to the free shareholders after we have set up some reserves.

The CHAIRMAN. What is the portion of the bill that you disapprove?

Mr. KARR. The portion of the bill that we disapprove is this: The heart of this bill is the mortgage companies that you are setting up. Under that portion of the bill relating to the national mortgage associations, you are setting up associations which must have $5,000,000 of capital. That $5,000,000 capital, as provided in the bill, must be in cash or in Government securities. In other words, it is new capital, and large capital, and banking capital, that must go into that market.

For the purpose of inducing them to come in you have created an organization or a corporation under that phase of the bill, which

permits them to operate without any taxation. They are not taxed anything, in any manner, shape, or form. They are free from all taxation under the income-tax law, and yet they are organizations set up for profit, and profit alone. There is no limitation on the amount of profit they can make, but they are given every safeguard, and everything is arranged so that they will not be called upon to pay any taxation, or be burdened in any manner with any taxation.

In turn they insure in the Home Credit Insurance Co., and further, they can borrow from the Home Credit Insurance Co., up to 90 percent on any collateral which they have, which has been insured under the Home Credit Insurance Co.

The Home Credit Insurance Co., in turn, has the authority to put out Government bonds without limit. Those Government bonds are free from all taxation. They are exempt. In turn, they can loan to these mortgage companies practically 90 percent of every dollar they put out. There is not any building association that can compete with that character of organization.

Now, I do not set myself up here as an expert. I have not had at my disposal all the statistics and matters of that sort which the men who drafted this bill had at their disposal and I am only giving to you what you might consider a layman's viewpoint.

The CHAIRMAN. Your view is that this would harm rather than help building and loan associations?

Mr. KARR. I see nothing, Mr. Chairman, but that the building-and-loan associations would have to liquidate. It is perfectly true that under the home-credit insurance portion of the bill any building association, any bank, any mortgage company, can come in and be insured under it, and would be entitled to enjoy the right of discounting its paper with them on such loans as were insured, but I think we fully realize that those companies that are already in existence, such as mortgage companies today, chartered under State charters, are all subject to taxation. They are all subject to pay an income tax, for they are organizations organized for profit. These national mortgage associations that you are setting up are not subjected to that, and it will only mean, in a few years, that the entire mortgage business would be in the hands of these vast mortgage companies, and their securities would be absolutely tax free, and they would be absolutely in control of the money interests of the country.

Going further, so far as the building associations are concerned, you set up, under an act of Congress, the home-loan bank, which was a rediscount bank. That bank does not enjoy selling its securities free from taxation, and the money that it can lend to its members on the matter of rediscount is at a higher rate of interest, or a rather high rate of interest. It has been around an interest rate of 5 percent. It does not give enough spread to the building associations to take that fund and reloan it at 6 percent. That 1-percent spread will not cover the cost.

In some sections of the country difficulties have arisen under the home-loan bank—for instance, in the eastern section, with which I am familiar. In the Southern States, under State law, they can lend money out at 7 and 8 percent. Take a State like Maryland. We can only reloan on the basis of 6 percent. The Southern States

enjoy a spread of 2 or 3 percent, if they get money from the home-loan bank at 5 percent, which is the same as we can get it for in Maryland. Those States to the south of us, which have a higher interest rate under their State law, do not care whether they get money at 5 percent or not. They are perfectly willing to pay 5 percent, because if they have a 7- or 8-percent State law, they get a spread of 2 or 3 percent. But when it comes to the State of Maryland we have a spread of only 1 percent, and it is very difficult for us to handle the money on that basis.

What you need is a revamping and a reorganization of your home-loan bank, so as to make it a real, honest-to-God rediscount bank. For some reason, throughout this whole trouble, throughout the last 2 years, there has been no studied effort, so far as I know, to revamp that bank and put it on the basis on which it was intended to be—a sound basis for long-term rediscount on the part of building associations and mortgage companies. Its restrictions are too rigid, and it could be very much liberalized. Its whole set-up could be strengthened. If they had attempted to reorganize that bank and made every mortgage company or every building association become a member of the home-loan bank if it wanted to rediscount its paper, and that bank could get the same rediscount interest rate that you give under this bill, then there would have been no reason in the world to set up anything like these mortgage associations that you are setting up under this bill. We see in it the death knell of the building association.

I do not know how far it is going to affect the mutual savings banks. So far as the insurance companies are concerned, they probably do not care, because they would probably in turn buy mortgages from these mortgage loan associations that you are setting up; but if you set up those mortgage loan associations, it has got to be with fresh capital. It cannot be the reorganization of any institution. It is new money put up, in the sum of $5,000,000 to start with. It means that nothing but real capital, big capital, can go into it, and you hand them over stock certificates that are tax free, and a corporation that pays nothing whatever so far as any income tax is concerned on whatever it makes. The rate of dividends it will pay is unlimited. The interest rate it charges the borrower is a matter entirely within its own discretion. There are no limitations on those associations in any manner, shape, or form. Those associations that are getting money through the Home Credit Insurance Co. at rates of interest as low as, probably, 3½ percent can absolutely drive out of the market every other type of State-owned or State-incorporated mortgage company or every type of building association, and when they have succeeded in doing that they can then gradually raise the rates to whatever they please.

The CHAIRMAN. Do you believe in an effort to stimulate private capital to go into the lending field?

Mr. KARR. Yes; but private capital never can compete with this.

The CHAIRMAN. The effort here is to invite and to stimulate private capital to go into that field. That is one of the purposes of it.

Mr. KARR. Mr. Chairman, the country does not want to give away its birthright to capital, and this sets up capital and a political

organization at the top of it. It is the marriage of capital and politics, and you cannot escape it to save your life.

The CHAIRMAN. You would put the whole burden on the Government?

Mr. KARR. I would not put the whole burden on the Government.

The CHAIRMAN. You do if you expect the home-loan bank to do this entire business.

Mr. KARR. It does not. The home-loan bank is nothing but a rediscount bank, sir. It is not in any different situation than the Federal Reserve bank.

The CHAIRMAN. What amount of money would be required by the home-loan bank to rediscount all the mortgages?

Mr. KARR. It does not make any difference what the limit is.

The CHAIRMAN. Somebody has got to furnish the money.

Mr. KARR. How much limitation do you put on your Federal Reserve in running your banking business of this country? There is no limit to that. There is no reason why there should be any limit to a rediscount bank so far as the mortgage business is concerned. It is simply long term. It is absolutely turning over. If you will get the records today from your rediscount bank at Winston-Salem, you will find that the money is flowing back to them faster than they can get it out, and you are only going to have your money going out in great amounts during times when there is a depression, and as times get better you are going to find it all flows back. But do not set up private corporations and put it in the hands of private individuals to own the stock of those corporations and dominate the mortgage market of this country, that stock being absolutely free from any taxation of any kind. It will be run for profit, and it does not pay a single cent of taxes under the income-tax law.

I say that when you set up that type of corporation and you set up that sort of insurance company and operate it in the manner proposed, you are going to close every building association in the United States. They cannot survive under it to save their souls. That is the heart of this whole bill. If you would reorganize your home-loan bank and make it a real rediscount bank, and take in every mortgage company, every building association, every trust company, and every life-insurance company, and if, besides that, you choose to have them come into the insurance fund and insure to the home-loan bank, the rediscount bank, the mortgages, I would see no objection to it, and we would be with you 100 percent. But we feel that while this depression is on, while we need money to go into the real-estate market and go into the mortgage market and start it up, and while we need unquestionably to rehabilitate the buildings that are in our city, you should remember the price that you are paying for it if you pass this bill. Thank you.

The CHAIRMAN. Very well. We are very much obliged to you.

Mr. Schmidt, I have already missed some votes over in the Senate, and I do not know what I am paying for this thing, but if it will accommodate you to be heard now, I can give you a few minutes.

Mr. KARR. Mr. Chairman, may I say one word more?

The CHAIRMAN. Yes.

Mr. KARR. We have written a letter to Senator Goldsborough calling his attention to the fact that in Baltimore we deal very largely in what are known as leasehold mortgages.

The CHAIRMAN. We understood that.

Mr. KARR. We ask that the bill be corrected so as to include those.

The CHAIRMAN. I think that is agreeable. I think there is no question about that.

Mr. SCHMIDT. I would be pleased to come back the first thing tomorrow, Senator. I understand you have planned to devote a day largely to building associations.

The CHAIRMAN. The building-and-loan associations are to be heard tomorrow. Mr. Bodfish is to be here.

Mr. SCHMIDT. Or I would be glad to wait until Wednesday. I understood that arrangements had been made for me to be heard if I would come on from Cincinnati.

The CHAIRMAN. Could you limit your time? How long would it take?

Mr. SCHMIDT. As long as you wish. Of course, we initiated this whole activity of the home-loan bank, and have been sticking with it for years, and have a good deal of interesting information about it.

The CHAIRMAN. We will go on tomorrow morning, and try to put you on.

Mr. SCHMIDT. I will wait until Wednesday if you prefer.

The CHAIRMAN. We have agreed to hear these building and loan people tomorrow.

Mr. SCHMIDT. Mr. Macdougall, from New York, who also was to testify, has to go back tomorrow.

The CHAIRMAN. Could you not go on now, Mr. Macdougall?

Mr. MACDOUGALL. I would rather follow Mr. Schmidt, because, as he says, we have been with this problem for 3 or 4 years. We think we have something to contribute to the discussion. I would rather follow Mr. Schmidt tomorrow morning, if that is possible.

The CHAIRMAN. I would like to accommodate the witnesses if I can, but our time is limited. Everybody's time is limited. There is nobody here to listen to you now.

Mr. SCHMIDT. Suppose we come in the first thing in the morning.

The CHAIRMAN. We will see what we can do. The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12:35 p.m., Monday, May 21, 1934, the committee adjourned until tomorrow, Tuesday, May 22, 1934, at 10 a.m.)

NATIONAL HOUSING ACT

TUESDAY, MAY 22, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on yesterday, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Wagner, Barkley, Bulkley, Gore, Costigan, Bankhead, Adams, Goldsborough, Townsend, Couzens, and Steiwer.

The CHAIRMAN. The committee will come to order, please. Is Mr. Fleming present?

Mr. FLEMING. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Fleming, will you take a seat at the table and opposite the committee reporter. Please state your name, residence, and occupation.

STATEMENT OF ROBERT V. FLEMING, PRESIDENT RIGGS NATIONAL BANK, WASHINGTON, D.C.

Mr. Fleming, have you examined this bill (S. 3603) we are now considering?

Mr. FLEMING. I have Mr. Chairman, with respect to modernization and repair. I have been in touch with that subject through being invited into some of the conferences held by Mr. Walker and members of the Emergency Council.

The CHAIRMAN. We will be very glad to have you state what you think the attitude of the banks would be, and about the possibilities of working out results under the bill, particularly as to that provision of the bill.

Mr. FLEMING. With respect to the attitude of the banks in regard to this bill, I believe, first of all, that the plan outlined is workable as far as the machinery of credit is concerned. I have discussed this matter with members of the executive council of the American Bankers' Association, though, of course, only informally, because the plan was then only in the formative stage and had not been completed as it was afterward presented to Congress. I found no opposition to it at all, and, on the contrary, a desire to cooperate with respect to extending credit.

There was the feeling expressed that it would be necessary for a campaign to be put on to encourage people to come in and use that credit. The general feeling was that unless such campaign was very strongly and strenuously carried on to get people encouraged to take advantage of it, a great many people would not apply for credit. At least that has been the experience in some places

where such a thing has been tried without a very strong national campaign.

As far as extension of credit is concerned, the plan is workable, and there should be no difficulty in regard to the credit situation.

The CHAIRMAN. Do you think there is any real need for it? In other words, is there a possibility of its being helpful in the unemployment situation?

Mr. FLEMING. If people can be encouraged, people who have been out of work for some little time and whose houses have run down, and who are now employed and would like to bring their houses back to proper condition, I think it would be very helpful to that type of person.

And, furthermore, I think it would be of very material benefit to people who would be employed in the work, that it would be very helpful at this time, particularly during the summer months when it would be carried on.

I might say in addition that we are quite willing to cooperate, that is, that the American Bankers' Association is quite willing to cooperate with the National Emergency Council if this bill becomes a law by way of making contacts with every one of our State associations in this respect, by having some person to present this plan and to explain it before their State meetings, which will be held over the next 60 days; and also we will request that they appoint someone, a member of their organization, as a liaison officer to cooperate with the National Emergency Council.

I might say that I have talked with Mr. Law, the president of the American Bankers' Association, and he is sure that they will cooperate fully in an educational campaign in regard to this subject, to the end that there may be no misunderstanding on the part of any bank as to what can be done.

Senator BULKLEY. Do you think that commercial banks would be interested in these loans, which contemplate a longer term of credit than is normal with them?

Mr. FLEMING. Do you mean making them up to 5 years?

Senator BULKLEY. Yes.

Mr. FLEMING. I believe on the average they would run for less than 5 years. I believe that the volume of these loans would not be such as to cause any banker to shy off, because there won't be enough volume, taking the situation all over the country. Of course, if every bank made every loan for which an application was presented to it, and for a period of 5 years, they might become in a frozen condition. But on the average I think the term would be for less than 5 years.

Then you have another situation, as to people not applying for credit. The popular opinion is that banks do not want to make loans. My observation is that they wish people would come to the banks to borrow. In other words, the earning situation of the banks is very bad, and they would very much like to have people use their credit. The trouble is that everybody wants to get out of debt.

The CHAIRMAN. Well, that isn't a bad tendency.

Mr. FLEMING. From the individual standpoint that is sound. On the other hand, the use of credit would stimulate the employment of people in the building trades and in the manufacture of goods.

Senator WAGNER. I remember reading a statement made by some public officials connected with the banking situation, who stated that

banks were unwilling to loan money, that that was one of the difficulties of the present situation. You say, Mr. Fleming, that your experience is to the contrary.

Mr. FLEMING. I think it is the contrary. Of course, there have been applications for credit where a bank has been asked to take an equity position, the same as a common-stock holder, and that could not be done. You hear a good deal of talk about credits being denied because the applications run for a longer time than the banks want to lend money. I do not believe that credit is being denied in any proper case. There may be some isolated cases, there may be some people who have not cooperated as others thought they should, but in the main where credit has been denied it has been where there are encumbered assets, or where the earning position of the person applying was not such that the loan would be secure. Such loans are not proper and should be declined.

I think the check made by the Federal Reserve Board will show—and I might explain that they made a check-up over the country about 2 months ago—I think their records will show, and I think I can assure you gentlemen of the committee, that the banks of the country will cooperate on this matter. Certainly the American Bankers' Association will do all in its power from an educational standpoint to make it clear that this machinery is workable. I think we all realize that.

The CHAIRMAN. We are very glad to have that attitude on the part of the bankers, to know that you sympathize with this movement and are ready to cooperate. It will be very helpful.

Mr. FLEMING. That is correct.

The CHAIRMAN. Is there anything else that you wish to say?

Mr. FLEMING. No; I believe not.

The CHAIRMAN. Then we thank you very much.

Mr. FLEMING. I thank you for hearing me.

The CHAIRMAN. We will now hear Mr. Friedlander.

Mr. Friedlander, have you examined this bill, S. 3603?

STATEMENT OF I. FRIEDLANDER, PRESIDENT OF THE GIBRALTAR SAVINGS & BUILDING ASSOCIATION, HOUSTON, TEX., AND VICE PRESIDENT OF THE UNITED STATES BUILDING & LOAN LEAGUE

Mr. FRIEDLANDER. Yes.

The CHAIRMAN. And are you familiar with its terms?

Mr. FRIEDLANDER. Yes, sir; I think so.

The CHAIRMAN. Can you speak with reference to the whole bill, or do you want to confine yourself to title III of the bill?

Mr. FRIEDLANDER. I should like to discuss in general the attitude of the building and loan business toward the entire legislation proposed here.

The CHAIRMAN. Very well. You may proceed to do so.

Mr. FRIEDLANDER. Inasmuch as this bill very vitally concerns the building and loan business, including the proposal to guarantee the shares of building and loan associations as investments, it might be well to call the attention of the committee, and to say for the purpose of the record, that these institutions have been operating in the United States for about 103 years. They operate on a cooperative basis, accumulating funds into a common fund of savers and investors for the purpose of lending on homes.

At this time there are ten million savers in these institutions, and there are two million borrowers. The building and loan associations of the United States, about 11,000 in number, have more than 65 percent of all the small-home mortgage loans in America. And 35 percent in volume of dollars. The directors of these associations are, mainly, public-spirited men who consider these institutions community benefits.

I should like for the sake of the record to put a statistical table of the institutions in the various States at this time, before you, showing the increase or decrease of assets over the past 2 years.

The CHAIRMAN. That may be made a part of the record.

(A summary table of number of associations, total membership, and total assets of building and loan associatitons, by States in 1932, is made a part of the record, as follows:)

Summary table of number of associations, total membership, and total assets of building and loan associations, by States, 1932

State	Number of associations	Total membership	Total assets	Increase in assets	Increase in membership
New Jersey	1,553	985,470	$1,146,108,891	[1] $35,864,724	[1] 122,261
Ohio	762	2,213,531	1,097,526,114	[1] 60,755,757	[1] 165,280
Pennsylvania	2,957	941,682	1,044,256,443	[1] 206,435,629	[1] 294,615
Massachusetts	227	467,829	527,360,936	[1] 32,742,106	[1] 31,694
Illinois	905	807,800	437,261,885	[1] 29,338,746	[1] 97,700
New York	299	531,216	423,676,167	[1] 19,576,197	[1] 84,255
California	188	494,000	407,146,357	[1] 45,960,994	[1] 56,000
Indiana	388	375,700	270,857,685	[1] 17,726,426	[1] 25,100
Wisconsin	184	252,773	260,548,326	[1] 20,684,941	[1] 26,022
Maryland [2]	1,075	300,000	197,500,000	[1] 12,500,000	[1] 20,000
Missouri	235	237,200	193,034,550	[1] 13,330,093	[1] 30,882
Louisiana	101	181,475	159,480,185	[1] 11,391,106	[1] 9,021
Michigan	66	218,235	152,933,382	[1] 12,336,158	[1] 939
Nebraska	83	190,600	124,307,312	[1] 12,710,257	[1] 14,650
Kentucky	161	181,800	118,475,594	[1] 3,345,974	[1] 5,200
Kansas	151	174,482	116,162,630	[1] 10,157,088	[1] 19,289
Texas	144	157,215	114,631,153	[1] 12,654,825	[1] 17,335
Oklahoma	82	129,339	113,251,396	[1] 13,092,065	[1] 85,339
District of Columbia	26	90,388	87,420,000	5,559,000	7,081
North Carolina	222	81,897	75,894,023	[1] 9,454,360	[1] 13,311
Washington	66	205,038	64,973,551	[1] 7,922,416	[1] 15,218
Virginia	85	62,100	56,321,016	[1] 1,044,492	[1] 4,470
Utah	23	74,023	50,287,421	[1] 2,958,103	[1] 12,631
Iowa	74	62,320	44,849,730	[1] 3,254,786	[1] 4,085
Minnesota	75	95,843	40,746,408	[1] 2,587,955	[1] 22,312
Colorado	58	55,000	38,472,204	[1] 20,664,457	[1] 30,870
West Virginia	60	53,480	35,804,108	[1] 1,937,233	[1] 2,870
Arkansas	56	50,000	35,498,145	[1] 9,312,629	[1] 11,571
Rhode Island	9	49,499	34,324,701	[1] 315,097	458
Connecticut	43	32,376	26,818,269	381,689	[1] 3,757
Alabama	37	36,230	25,772,240	[1] 2,308,147	[1] 3,210
Maine	36	27,565	24,818,627	[1] 696,809	[1] 879
South Carolina [3]	132	30,000	24,500,000	[1] 1,050,000	[1] 2,000
Oregon	22	33,800	19,645,142	[1] 7,364,640	[1] 12,200
Montana	27	32,767	19,150,925	[1] 1,769,453	[1] 5,136
Tennessee [2]	40	23,470	17,387,000	[1] 1,109,924	[1] 1,500
Mississippi	46	24,537	16,679,871	[1] 2,000,234	[1] 2,843
Delaware [3]	44	20,500	16,118,223		
Florida	65	11,400	14,369,063	[1] 1,606,509	[1] 1,000
New Hampshire	29	16,613	14,076,044	[1] 141,381	[1] 1,012
North Dakota	22	19,650	13,135,969	[1] 1,018,402	[1] 1,450
Wyoming	11	17,850	9,509,864	[1] 384,083	[2] 650
Georgia	40	18,893	7,265,368	250,235	474
South Dakota	21	10,314	6,241,600	[1] 87,955	[1] 454
Vermont	14	6,063	5,495,121	198,110	[1] 147
Hawaii	11	12,534	5,209,278	202,191	[1] 1,469
Idaho	14	7,650	5,039,612	[1] 129,280	[1] 200
New Mexico	17	4,950	4,717,489	[1] 289,310	[1] 300
Arizona	8	6,030	4,247,141	[1] 713,067	[1] 1,020
Nevada	3	1,665	1,183,930	157,042	225
Total	10,997	10,114,792	7,750,491,084	[1] 666,884,521	[1] 1,223,909

[1] Decrease.
[2] Estimated.
[3] No report issued 1932, figures for 1931 used.

The CHAIRMAN. You may proceed with your statement, Mr. Friedlander.

Mr. FRIEDLANDER. I should like to say that even during the depression these associations, at least as the best they have been able to do, have been attempting to function in their field. Where the flow of savings into these institutions has been steady the institutions have continued to lend their money upon home mortgages. For instance, here in the District of Columbia, where there seems to be a situation that they are the favored child of fortune, where savings have continued in these institutions uninterruptedly until the bank debacle of 1933, the institutions have continued to increase their reserves and have put their resources into mortgages. In fact at no time have the building and loan associations of the Nation ever had as much as 5 percent of their total resources in cash. In other words, they do not hoard the cash but as they get funds they lend them in their field, which is the home-mortgage field.

The United States Building and Loan League, for which I am speaking, was organized in 1892, forty-odd years ago, as the result of the need for a national organization to combat the various practices of the old national building and loan associations which then operated all over the United States, and also to try to encourage proper supervision and regulation of building and loan associations. It has an individual membership of some 4,000 institutions in the country, which institutions represent 73 percent of the total assets of building and loan associations. And it represents all of the State leagues. The president of the United States Building and Loan League himself would have been here but for the fact that he is in California attending to the duties of his office.

I wish to say that the United States Building and Loan League desires to endorse the message of the President of the United States to Congress, and to state that we are for about four fifths of this proposed bill. We are certainly in favor of emphasizing any practical way of meeting the question of reemployment for the building trades. We think it is quite important to see that homes and real estate are maintained. We think it important to see that funds are available for that purpose; that there should be adequate financing for home construction as the demand becomes more effective; and we also believe it is important that private capital be diverted into the proper field for home financing; and we want to say for the building and loan associations that they will cooperate in every way with the program that revolves around those ideals.

The CHAIRMAN. There was a gentleman here yesterday from Baltimore who took the view that this bill would put building and loan associations out of business. What about that view?

Mr. FRIEDLANDER. Senator Fletcher, there are some parts of the bill which we consider a very serious threat to building and loan associations, and which I should like to discuss as I get to them.

The CHAIRMAN. Very well. Proceed along your own line.

Mr. FRIEDLANDER. The first part of the bill, title I, which provides for the repair and alterations program, we are absolutely 100 percent for. We think there is a need for it and that it will be constructive and that the funds provided will be used.

We have some doubts, which doubts were expressed by a witness before this time, as to the extent to which commercial banks may

enter the field, even with the guarantee. But so far as building and loan associations are permitted by the rules and regulations that may be adopted are concerned, we can safely say we will be very glad to use all the funds we may be able to obtain for that purpose.

The CHAIRMAN. Do you favor the Home Credit Insurance Corporation?

Mr. FRIEDLANDER. I will get down to that in a moment, if you will permit me.

The CHAIRMAN. Very well.

Mr. FRIEDLANDER. We favor the modernization plan, title I, all of it, with the exception of section 5. Now, section 5 treats with something more than the proposal for repair, alteration, and improvement. Section 5, in very broad language and without any details, undertakes to set up a system of guaranteeing mortgages, both new mortgages to be created and existing mortgages. We feel that based on the experience we have had in this country, and some of it in your State, Senator Wagner, in regard to the guaranteeing of mortgages——

Senator WAGNER (interposing). Did you say some of it?

Mr. FRIEDLANDER. Well, we have had some of it in our State too, in Texas.

The CHAIRMAN. And the Government has had some experience, too.

Mr. FRIEDLANDER. As I say, we feel that based on the experience we have had in this country, the Congress of the United States can afford to pause and consider very seriously the question of setting up, with unlimited bonding capacity, to which the credit of the United States is pledged, a system that would place the Government back of the insured mortgage field. We feel that, particularly with reference to existing mortgages, the Congress having set up the Home Owners' Loan Corporation, functioning in the taking up of distress mortgages and issuing now Government bonds back of those mortgages, perhaps has gone for enough in the field of existing mortgages. And that now to set up a system of taking up and guaranteeing the good existing mortgages is carrying the United States pretty far into the mortgage-guarantee field.

We do not think there is either any social or any economic necessity for the insurance of present mortgages. There might be some such field when it comes to the question of new construction mortgages, basing it on employment. However, if the Congress in its wisdom determines that there is any reason for such a set-up, then we think the Congress ought to face very frankly the implications of that sort of set-up.

Senator COUZENS. What do you say with respect to the 80 percent loans on that matter?

Mr. FRIEDLANDER. I was getting right to that point, Senator Couzens. When they say you should set up a system that contemplates the guaranteeing of mortgages up to 80 percent of value, I say that based upon the experience of private capital attempting to guarantee mortgages on a basis of 50 percent, it must certainly be known that they are getting into a field that might result in very serious losses to the Government.

Senator COUZENS. Mr. Friedlander, during your discussion of the bill are you going to interpret the language of the housing project proposition? I wondered how you interpreted that language.

The CHAIRMAN. Low-cost housing projects.

Mr. FRIEDLANDER. Senator Couzens, I should prefer that some one else would discuss that. But I assume there is some specific object in having that put in there.

Senator COUZENS. What would you interpret the meaning of the language to be?

Mr. FRIEDLANDER. I would interpret the meaning to be the development of additions based upon limited-return corporations set up in the various States.

Senator COUZENS. Do you mean that it refers to single homes or to apartment houses and a series of attached houses?

Mr. FRIEDLANDER. It may be that it refers to any house.

Senator WAGNER. As a rule, when we talk about low-cost housing projects we are thinking of congested areas in the cities where we are making available at a reasonable rental sanitary houses with modern facilities, so that the worker may enjoy at least the privilege of living in a decent home.

Mr. FRIEDLANDER. I imagine it is something like the P.W.A. has had in mind in starting the Euclid project near Cleveland, Ohio, and things of that kind.

Senator WAGNER. I do not mean that that is the definition to be followed in the case of the language contained in the bill, but usually when we speak of low-cost housing projects we have that kind of housing in mind.

Senator COUZENS. I thought you interpreted that as a collection of homes in one building. Is that true, Senator Wagner?

Senator WAGNER. I do not know how it is intended to be interpreted, as far as the language contained in the bill is concerned, but if you mention it to me that is the way I would visualize it.

Senator COUZENS. And not a collection of individual homes?

Senator WAGNER. Well, in the building of new homes, and making them low cost so that the rental may be reasonable, and with decent facilities. I suppose that kind might be included, too.

Mr. FRIEDLANDER. The language of section 5, of course, as the Senator points out, uses terms that are probably capable of several interpretations. The language of section 5 is so broad that almost anything can be read into it, as to the plan in contemplation for insurance of mortgages. Therefore, I cannot discuss it from the point of the proposed legislation here before you. I can only discuss the public statements that have been made, and statements that have been made to me by those who are proponents of the plan, as to what they have in mind—and which, by the way, might be changed immediately after the bill was enacted into law and the board was set up, which board might not be composed of the persons who have proposed the bill.

I want to call attention to the fact that section 5 merely states that he Corporation shall insure amortized mortgages and like liens. Now, what sort of insurance that shall be is left entirely out of the bill; and as to amortized mortgages, or as to the type of the homes. It might be short-term mortgages, although I am sure the proponents of this bill have in mind long-term loans. However, there is nothing in the bill which would prevent a change of plan at any time.

Senator COUZENS. Is there anything in the bill which proposes to set up a fund for this insurance?

Mr. FRIEDLANDER. There is a proposal that the Corporation shall have 200 million dollars capital, and——

Senator COUZENS. I mean outside of that 200 million dollars capital.

Mr. FRIEDLANDER. And outside of that there is the proposal that the insurance shall be based as far as practicable on the mutual principle, so as to be self-supporting and involve no greater cost to mortgagors or mortgagees than to cover administrative expense.

However, there is a provision in section 6 that the Corporation is authorized and empowered to issue and have outstanding its notes, debentures, bonds, or other obligations, to be approved by the Secretary of the Treasury, and fully and unconditionally guaranteed by the United States, which are permitted to be issued without limit for new construction projects or as to the guaranteeing, and as to existing mortgages apparently limited to a billion dollars, except that with the approval of the President of the United States it might be extended to any amount above that. The bill, apparently, is rather wide open as to the powers conferred.

As I understand the plan, the guaranty is supposed to operate in this way: That the existing mortgage companies, and such other companies as may be created under this act, which I shall discuss in a few moments——

The CHAIRMAN (interposing). You mean prior to July 1, 1937?

Mr. FRIEDLANDER. Yes; prior to July 1, 1937—always unless extended after that by an act of Congress. And I cannot see any need for a perpetual corporation such as is attempted to be created here if we are only going to have such a short time of lending. It is provided that they shall make loans on mortgages up to 80 percent of the value, and for a period of from 20 to 25 years, at a rate of interest discussed as 5 percent, from 5 to 6 percent. And these amortized mortgages will be held by the company making them. However, as default occurs, presuming that some of them are not paid, the mortgage company then shall foreclose, and after foreclosure a reduction of the debt to judgment and title and possession of the property, there will be a tender of the property to the Insurance Corporation, which issues one of its debentures, guaranteed by the Government of the United States, in exchange for the property. That is the insurance plan as I understand it, or as it has been related to me, which simply means that the United States Government under this act will be in the position of taking over, under the insurance plan, all the foreclosed real estate which they have insured and which is protected by such security.

Now, we think that is a rather unsound proposal, and that it will and does offer a very serious threat, as stated before you by the gentleman who appeared on yesterday, to the existing institutions that cannot obtain money on the basis of 5 percent over a period of 20 or 25 years, and who by reason of that situation will not be able to participate in such a program, and therefore would not be able to tender to the United States Government their foreclosure, which would have to carry them in the working out of the matter as best they could.

For that reason we think that section 5 should come out of the bill. At this time there are very few financial institutions in the United States that are in a position, under their State laws, to make loans up to 80 percent of the value of the property. Life-insurance companies cannot do it. Building and loan associations, for the most part, cannot do it. Savings banks and trust companies cannot do it. And therefore this proposal, having in mind 80 percent loans, would not be effective, could not be really effective until you change the laws of practically all the States of the Union. At least unless you set up, as is proposed here, a new mortgage institution, operating out of many centers of the country and throughout the United States, using guaranteed mortgages and setting up a very badly discredited guaranteed system.

And so it is that I say, as to title I of the bill we are of opinion that the alteration, modernization, and repair program could be immediately put into effect, could be made beneficial, and would secure the cooperation of the lending agencies. But that section 5 should be eliminated.

Now, under title II of the bill, national mortgage associations——

Senator WAGNER (interposing). Do you understand that section 5 of the bill would limit it to the guaranteeing of mortgages upon homes?

Mr. FRIEDLANDER. Section 5 does limit the guaranty, as I understand it, to homes and low-cost housing projects.

Senator WAGNER. Yes. And is that one of the things you refer to that you object to?

Mr. FRIEDLANDER. No. Answering that question, Senator Wagner, I think if section 5 was limited to low-cost housing projects there might not be any objection to it, because that is supposed to be a sort of quasi public project. There might be some reasonable excuse for the United States pledging its credit in support of such projects.

Senator WAGNER. There is for low-cost housing a certain need in this country.

Mr. FRIEDLANDER. Yes.

Senator COUZENS. Why is that?

Senator WAGNER. In the place of the slums and the unsanitary places that now exist, where people whose income depends upon employment, have to live and have no other place to go.

Senator ADAMS. May I get quite clear the distinction between building homes and low-cost housing, which I had supposed meant to build homes of lower cost? It may be that I am in error in that view.

Senator WAGNER. That is what I mean.

Mr. FRIEDLANDER. It is my understanding that a low-cost housing project is somewhat different, Senator Wagner, from a low-cost house. When you speak of a low-cost housing project you are talking about a group or a beehive proposition rather than a low-cost house, or at least that is my understanding of the term, although I may be wrong.

Under title II, national mortgage associations, this bill undertakes to create, under Federal charter, a new type of mortgage company, a mortgage company that under the terms of this bill would not be confined to either low-cost housing projects or to home financing.

As I interpret section 201 of the bill, stating that national mortgage associations may be established for the purpose of lending upon the security of mortgages or such other liens as are commonly given to secure advances on real estate under the laws of the State in which the real estate is located, such companies would make mortgages upon apartment houses, hotels, business properties of any kind; and under section 207 the same institution could issue and have outstanding bonds up to 15 times the aggregate par value of its outstanding capital stock, which capital stock is fixed with a minimum of $5,000,000. I do not think the proponents of this measure had in mind the reenactment of the S. W. Straus & Co., the Adair, the Miller, and the Caldwell fiascos of the past, but they could very properly under Federal auspices reenact the same things in the sale of debentures and bonds which happened during the good old days of 1927, 1928, and 1929, because there is no limitation except the limitation that where they deal in guaranteed home mortgages, under section 5, they can only issue dollar for dollar in bonds on home mortgages. But where they would choose to deal in other types of loans, as I understand the section, it would permit the issuance and sale of bonds on all types of structures under the flag of the Government, under its charter and under the supervision of the Federal Home Loan Bank Board.

We are merely pointing out that wherever there has been an attempt to obtain funds for the mortgage business in the sale of debentures and bonds rather than by making mortgages out of investment funds, wherein the mortgage company or the insurance company or the building and loan association retained in their own portfolio their mortgages, and had to face losses to their own stockholders or policyholders, we have had in this country a very, very serious situation.

As I stated in my opening remarks, the United States Building & Loan League came into existence in 1892, as a result of the building and loan associations at that time, some of them, for instance, the Old Home, of Georgia, and others, attempting to do a Nation-wide business, and the failure of some of them, which precipitated a crisis in the building and loan business. And as you gentlemen know, in considering the Federal savings and loan program, where the Government is setting up these mutual-thrift associations, you very wisely wrote into that act a provision that these institutions should not lend more than 50 miles away from the home office.

Senator BULKLEY. I do not quite understand the distinction you are drawing there about facing losses on the part of their own stockholders. As I understand it, these mortgage associations have capital stock up to $5,000,000 and would be responsible to their stockholders for the conduct of their business. Now, what was your distinction?

Mr. FRIEDLANDER. That is correct. But you are permitting a pyramiding of assets, wherein the bondholders or debenture-holders would have to face the largest portion of that.

Senator BULKLEY. Will you make your distinction between what you call sound and unsound practices?

Mr. FRIEDLANDER. The only sound practice I know of in this country was an attempt, from a center, to lend throughout the United States on homes——

Senator BULKLEY (interposing). Is there the objection that they loan over too great territory?

Mr. FRIEDLANDER. That is one objection. The other objection is the issuance of bonds and debentures pyramided against capital stock.

Senator BULKLEY. Doesn't everybody lend other people's money, depositors' money, or somebody else's money?

Mr. FRIEDLANDER. They do, but they usually retain the investments in their own portfolios. They do not pass them on to some third party. It is somewhat of a break-down of responsibility, I think, in lending.

Senator BULKLEY. What do you mean by passing it on to a third party?

Mr. FRIEDLANDER. Well, the bondholder gets a bond secured by the particular mortgage.

Senator BULKLEY. But the corporation is still responsible.

Mr. FRIEDLANDER. The corporation is still responsible to the extent of its capital.

Senator ADAMS. You have $5,000,000 capital upon which there may be outstanding $25,000,000, as I understand it here.

Mr. FRIEDLANDER. No; it is $75,000,000 under this bill.

Senator COUZENS. It is 15 times the amount of the capital.

Senator GOLDSBOROUGH. Mr. Friedlander, I was late in coming into the committee room. I did not hear your opening statement. May I ask your attention to section 201 of the bill, in regard to the national mortgage associations, and ask you if you have any information as to what the effect would be of the establishment of such an association on State building and loan associations?

Mr. FRIEDLANDER. I think it would constitute a very serious threat to all local mortgage institutions. I was just attempting to discuss that entire title. I think it is going to involve Congress in a situation with reference to the tax-exempt feature which is going to come down to section 5219 of the Revised Statutes matter, which no doubt you gentlemen will remember.

Senator GOLDSBOROUGH. I will say that in the State of Maryland we have something over 1,000 building and loan associations.

Mr. FRIEDLANDER. Yes.

Senator GOLDSBOROUGH. And I am anxious to know what effect it might have upon them.

Mr. FRIEDLANDER. The tax-exempt feature, under section 212 of the bill, which provides that these new mortgage institutions may not be taxed by the States at a rate higher than competing, not mortgage institutions, but financial corporations, domestic or foreign, means I rather think, that you will be involved in another section 5219 matter in a very short time, affecting the tax status of the States as to all financial institutions and their relationship to this new corporation it is proposed shall be created.

Senator COUZENS. And would you like to see the section 5219 situation eliminated?

Mr. FRIEDLANDER. Yes.

Senator BARKLEY. To what extent are these buildings and loan associations now functioning likely to be endangered?

Mr. FRIEDLANDER. We believe these building and loan associations are just beginning, under the help, quite frankly, of the Home Owners' Loan Corporation, to reestablish themselves back into the

lending field. And we feel that the passage of this bill, with a new competitive institution under the sponsorship of the United States Government, would drive more capital out of the field than it would bring into it. And that the passage of title III, providing the Federal Savings and Loan Insurance Corporation, by which you enter the guaranteeing field, you will put these institutions in a position to almost immediately begin their normal functioning, and that you will have no need for a new mortgage set-up.

Senator BARKLEY. It is not contemplated that a new mortgage set-up would be instituted where the facilities are adequate, is it?

Mr. FRIEDLANDER. It is contemplated that these institutions will be organized in, let us say, New York, and they will be set up in Louisville, Ky., and so on. And provision is made here for them to be set up in every State in the Union.

The CHAIRMAN. Do you think there will be many of those organized with a capital of $5,000,000 each?

Mr. FRIEDLANDER. I do not know. But I think this, if you set up a banking system of 12 times its capital, that can issue bonds with a great deal more security and it will boom funds more than this contemplates. And that not many of them should be set up. I cannot contemplate any of them being set up, except it may be, in connection with guarantee mortgage companies, who are now in dire straits, and who would be enabled with a capital of $5,000,000 to transfer off the books of surety companies the guarantee it has from the owners onto the books of the taxpayers of the United States. That is the only purpose I can see for that type of mortgage set-up.

It may be that the life-insurance companies, which are now in no position to lend more than 50 percent under their State charter and State laws, might be interested. I don't know. And the organization of a $5,000,000 corporation, with the right to lend up to 80 percent, and which would have the Government agree to take off its hands its foreclosed property, might be interested in it.

I started to say a few minutes ago that the only sound loan we know of that covers the United States is that indulged in by life-insurance companies, the Metropolitan and the Prudential and others, which lend out of their home office through local agents in the various States, but they lend on a basis limited to 50 percent and not 80 percent. And they do not make 20- or 30-year loans that I know anything about.

Now, passing from title II to the title covering insurance of savings and loan savings, page 19 of the bill, perhaps if Congress had not passed the guarantee of bank deposits, and had its terms cover the guaranteeing of savings deposits, as well as commercial checking accounts, there might not have been any necessity for this proposed legislation. It will take building and loan associations longer to recover from the depression, but we believe recover they would as they have recovered from other depressions; but with the guaranteeing on the part of the Federal Deposit Insurance Corporation of interest-bearing deposits, it becomes almost necessary to stop the drain from those institutions and reestablish confidence, and give them funds to finance in their normal field, which is the purpose of this bill, that their shares be guaranteed.

However, that guarantee, and in this bill it so provides, should not be for liquidity of their funds, because I do not care what system is set up here, a national credit system or a guaranteeing of mortgages, the fundamental proposition is that you cannot lend money for 10, 15, or 20 years and have that money available. No system of guarantee of building and loan shares should be set up that promises to put any insurance corporation back of an obligation to pay on demand. Where those practices have been indulged in, as you know, they have brought building and loan associations to grief. And we do not advocate anything of that kind.

We believe this, that there are some amendments which ought to be made to the proposal for Federal savings and loan insurance and which Mr. Bodfish, who is to follow me, will present. We particularly believe, for instance, that the cost as provided in this bill is unnecessarily high. It is even higher than the guarantee set up for commercial banks. And the record of losses in commercial banks as compared with losses in building and loan associations do not justify 1¼ percent, which appears in three places, the 1¼-percent fund that is required to be set up according to this bill. Losses of building and loan associations in any 1 year have not been, as to the total assets of the country, more than one quarter of 1 percent.

Senator BULKLEY. Whatever figures you may want to present on that matter we would be very glad to see, in comparison with insurance of commercial bank deposits. But any insurance that commercial banks have isn't justified because they have to be fixed in a different light, except for temporary insurance.

Mr. FRIEDLANDER. I understand that. But of course there you are not only guaranteeing solvency but also guaranteeing liquidity as well. Here you are only guaranteeing solvency. We believe we can furnish to the committee some very interesting figures to justify our contention that the rate as proposed here in this bill is unnecessarily high, and would probably defeat it.

Senator BULKLEY. Suppose you illustrate it on its own merits without regard to comparison. There is nothing to compare it with as I see it.

Mr. FRIEDLANDER. You can compare it with our own record.

Senator BULKLEY. Well, that would be interesting.

Senator COSTIGAN. Are you prepared to suggest amendments to the bill?

Mr. FRIEDLANDER. Mr. Bodfish will suggest amendments.

Senator COSTIGAN. All right.

Mr. FRIEDLANDER. Now, then, you will probably hear—and I do not know how long your hearings will last—but you will probably hear some building and loan expression in opposition to guaranteeing of building and loan shares. You have probably heard a lot of it in the guaranteeing of bank deposits. It is my opinion that if the matter were left, however, to the shareholders of these institutions, who number about 10,000,000 people, and not entirely to the management, that you would have practically no opposition. Inasmuch as it is the shareholder who must pay for the insurance by reason of decreased earnings, it is his interest, after all, that must be considered in this legislation.

Now, then, if we may pass on to title IV of the bill, it provides amendments to the Federal Home Loan Bank Act which liberalize

that act in certain respects, and we think they are proper. We have no objection to those amendments, but we will probably want to make some suggestions as to them.

As to sections 405 and 406 of the bill, which are amendments to the Federal Reserve Act and the National Bank Act, I presume it would be improper for me to attempt to discuss them very much before this committee, except to call attention to that which is involved in an attempt to put the commercial bank back into the long-term mortgage investment field, a thing which the Congress last year, in its judgment, separated them from.

I very seriously doubt the wisdom of permitting national banks to lend, even under the insured mortgage plan, for 20 to 30 years depositors' funds, because, regardless of the fact that the loss is ultimately insured, it is a type of investment that cannot be liquid.

Now, there has been some statement made to me that these national mortgage associations, if permitted to be created, would act as a reserve for these funds lent by the banks. Well, gentlemen of the committee, you know that we felt that the bonds held by the banks would be a sufficient secondary reserve for them to be enabled to meet depositors' demands, but when the depositors made their demands it was at a time when, if they sold their bonds, it would "bust" the bank. And I submit that even if the national mortgage associations are set up with the idea in view that if a bank has $100,000 of these guaranteed mortgages, and they need their money, if called upon by their depositors and they need to liquify their position, they can sell those notes because they are guaranteed to the mortgage company, that that will probably come at a time when the mortgage company is not in a position to float its own bonds and debentures, probably because of the depressed price of all bonds, and you will have the same situation you had when the banks were in the investment field. I merely call attention to that because, in my opinion, that will not work. Now, Mr. Chairman and gentlemen of the committee, I want to thank you for hearing me.

Senator BULKLEY. Then do I understand that you are unqualifiedly opposed to national mortgage associations?

Mr. FRIEDLANDER. I thought national mortgage associations, as mentioned in some of the preliminary discussions I have had in Washington during the last several weeks, would be confined to low-cost housing projects. It was my understanding that that was the extent to which they would be provided for in this bill.

Senator BULKLEY. Do you think they would be all right for that purpose?

Mr. FRIEDLANDER. Yes, sir; because I do not think you are going to get local lending institutions to get into that field, on account of the hazard involved.

Senator BARKLEY. What is your line of demarcation between one that is low cost and one that is not?

Mr. FRIEDLANDER. There has been a lot of debate on that in connection with some of the low-cost housing projects put up by the P.W.A., as to whether the price per room hasn't put them into the high-cost class.

Senator BARKLEY. Doubtless you have some idea about it. What is your idea?

Mr. FRIEDLANDER. Well, I would say that not over $5 a room would be a low-cost housing project.

Senator BARKLEY. Do you mean as to the rental?

Mr. FRIEDLANDER. Yes.

Senator BARKLEY. I meant as to the cost of the house.

Mr. FRIEDLANDER. Well, I should not want to hazard a guess, because I would want to withdraw my statement if it was the understanding that this was to apply to individual houses. It is my understanding that low-cost housing projects are a set-up under a sort of quasi-public agency, in a community where they have limited taxes, for the purpose of performing a social service.

Senator WAGNER. And also with limited profits?

Mr. FRIEDLANDER. Yes; if this low-cost housing is just a matter of going out and building a new house in some area, why, of course, that is no different from what the Public Works Administration in Cleveland is doing.

Senator WAGNER. I should judge that the writers of this bill had hoped, under section 5, where they speak of owner-occupied homes for low-cost housing projects, that it went further. There is a distinction between the two.

Senator COUZENS. Mr. Friedlander, you have referred to title III, insurance of savings and loan savings. I notice in subsection (f) on page 20 a reference to "insured account", which means a share, certificate, or deposit account of a type approved by the Insurance Corporation. What do you mean by a share in the deposit account, or a certificate in the deposit account? What are these?

Mr. FRIEDLANDER. In certain sections of the country they have issued certificates which provide, instead of being shares of some good underlying property, it is a certificate of indebtedness. And over in the bill further there is provision, however, that the board shall have the right to approve all types of securities issued, and that none can be issued by an insured institution that includes any fixed or definite time.

Senator COUZENS. In the past in what form have they issued them?

Mr. FRIEDLANDER. They have issued certificates in California, is one State that I recall, which provided for a fixed rate, and some for a maximum rate not to exceed 5 or 6 percent. In Senator Bulkley's State of Ohio some associations have had deposits accounts. The idea of this bill is not to exclude these institutions which happen to have been built up on that basis, but to permit them to come in, and still not to permit them to continue what many of us think is a rather unsafe and unsound practice for building and loan associations.

Senator ADAMS. How would you insure a building and loan certificate, such as is issued in some States, where it is provided that a certain amount of money shall be paid when the certificate matures?

Mr. FRIEDLANDER. As to when the earnings of the company reach such an amount they certainly cannot guarantee when the earnings will reach that amount. It is not intended that they would guarantee that your earnings on it would be at any rate. The guarantee is simply to insure to that stockholder that in event the institution becomes insolvent the stockholders over a period of 3 years will be paid their investment. In other words, the only guarantee is as to the solvency of the investment.

Senator COUZENS. Now I am confused again, because you are mixing up shareholders and certificate holders. I am still unable to determine what the difference is between a shareholder and a certificate holder.

Mr. FRIEDLANDER. In California they have building and loan associations organized under their law where there is a group of stockholders or shareholders who have paid in a certain amount on guaranteed stock.

Senator COUZENS. What do you mean by "guaranteed stock"?

Mr. FRIEDLANDER. Stock which is guaranteed to shareholders as to the integrity of their investment. They are already guaranteed to the extent that the stock itself can guarantee it, and the return on their investment certificate. They make a distinction between stockholders and certificate holders. In this set-up that guarantee fund is that much more cushion protecting in this case shareholders, or certificate holders of that institution. I should say not shareholders but certificate holders.

Senator COUZENS. When does the certificate holder get his money?

Mr. FRIEDLANDER. At maturity, usually for a definite term.

Senator COUZENS. And what is that term?

Mr. FRIEDLANDER. Five years is about the usual term.

Senator COUZENS. So a man deposits money in one of these building and loan associations and receives a certificate due in five years and he collects whatever interest your California corporation earns?

Mr. FRIEDLANDER. Up to a certain point.

Senator COUZENS. Does the shareholder have any maturity?

Mr. FRIEDLANDER. No, sir; his stock is permanent. It remains there until all of the certificate liability has been paid.

Senator COUZENS. And that is guaranteed under this bill?

Mr. FRIEDLANDER. Do you mean his investment?

Senator COUZENS. Yes.

Mr. FRIEDLANDER. No; Senator Couzens.

Senator COUZENS. It says that this insured account which means a share.

Mr. FRIEDLANDER. A share certificate in the insured account of a type approved by the Insurance Corporation.

Senator COUZENS. I am trying to find out what they will derive.

Mr. FRIEDLANDER. Well, just a minute there. I think you will find under section 303 a definition, in the middle of that section:

> Insured members are persons, firms, or corporations holding withdrawable or repurchasable shares, investment certificates, or deposits in an insured institution.

In other words, these permanent stockholders have no insurance at all under this.

Senator COUZENS. What is the difference between a deposit account and a certificate holder?

Mr. FRIEDLANDER. In Ohio, and I believe it is the only State in the Union where building and loan associations have been permitted under their law to accept savings deposits, and that was put in there to enable those institutions to qualify under this bill.

Senator COUZENS. In other words, their deposits are guaranteed the same as deposits in a commercial bank?

Mr. FRIEDLANDER. Yes, sir.

Senator COUZENS. To any extent?

Mr. FRIEDLANDER. Only as to solvency, not as to liquidity.

Senator COUZENS. How much is the limit?

Mr. FRIEDLANDER. It is $2,500. And their contract in Ohio is that even deposits are not subject to demand withdrawal, that they are paid as their rights justify, and the insurance does not cover immediate payment.

Senator BARKLEY. In what capacity do you appear before us?

Mr. FRIEDLANDER. As the vice president of the United States Building and Loan League, in the absence of the president who is in California.

Senator BARKLEY. How many individual units are there in your organization?

Mr. FRIEDLANDER. Four thousand, representing 73 percent of the total resources in building and loan associations.

Senator BARKLEY. How many building and loan asociations are there in the United States?

Mr. FRIEDLANDER. There are slightly under 11,000, or to be exact 10,997.

Senator BARKLEY. Do you know that 40 percent of those building and loan associations, those in and out of organizations, are at this time not functioning at all?

Mr. FRIEDLANDER. I would say that aside from a few eastern States, where they have been particularly favored with freedom from bank troubles, that 65 percent of our institutions are unable, except in a small way, to make loans at this time.

Senator BARKLEY. How long have they been in that condition?

Mr. FRIEDLANDER. Since 1931.

Senator BARKLEY. Isn't it true that many of them are hanging on and using up their resources in the hope of a better day coming, or to prevent the officers and managers of those defunct organizations from losing out altogether so far as they are concerned?

Mr. FRIEDLANDER. I do not believe that I can agree with you on that statement.

Senator BARKLEY. I am not making a statement, but am asking for information.

Mr. FRIEDLANDER. Building and loan associations are, for the most part, getting into fairly good shape, as I stated before you came into the hearing room, largely due to a more liquid position that is being accomplished through the Home Owners' Loan Corporation. Distress mortgages are being taken off their hands by reason of the relief granted, and they are being given bonds. That work is helping those institutions now in all sections of the country to lend their money.

Of course, we have been confronted with the situation of our shareholders wanting their savings. And the expression has gone abroad that many associations which are defunct because they cannot immediately offer or have not been able to immediately offer the money, could not be able to convert their long-time mortgages into cash and pay off their shareholders out of it, which was their contract, by the way. Now, we could not do that, and we believe that—in fact, the income of these institutions has for the past 3 years been used largely for the purpose of paying off these shareholders who needed their money.

Now, we believe that the guarantee applies only to the solvent institutions, which this bill provides—and we have some defunct ones—and those institutions will not get into this system. They haven't got into the Federal home-loan bank system, and that is a prerequisite before they can get into the Insurance Corporation.

The CHAIRMAN. How many of them have gone in?

Mr. FRIEDLANDER. I believe 2,400 have gone into the home-loan bank system, representing $2,500,000,000 of assets, or one third of the resources of the associations, are now in the Federal home-loan bank system.

Senator BARKLEY. How many of those 2,400 institutions that have gone into the Home-Loan Bank Corporation are qualified under the law and are members of your organization?

Mr. FRIEDLANDER. About 2,300 of them.

Senator BARKLEY. Has there been any process of clean-up with reference to building and loan associations that approaches in its character the clean-up of banks resulting from the bank holiday, wiping out all the small and weak institutions there?

Mr. FRIEDLANDER. I think your process was hastened in the case of the banks by your Insurance Corporation set-up, which would be paralleled very likely by the same language under this act. In other words, your supervising authority would be something like that in the case of the closed banks. And probably in many sections of the country, inasmuch as they are under State charter they have been in the same position as building and loan associations—it was only when they had to clean up in order to get into the Deposit Guarantee Corporation, after they had some $900,000,000 advanced by the United States, through my good Texas friend, Mr. Jones, that they got in position to get into the Deposit Insurance Corporation.

It is contemplated that even members of the Federal Home Loan Bank System would have to undergo examination, under the terms of this bill, in order to get into the Insurance Corporation. There is to be no wholesale taking over of 11,000 institutions without assuring ourselves of their condition of solvency and having them write-down their liabilities. In event they are not solvent there is no idea suggested in this bill to take them all in in a wholesale way.

Senator BARKLEY. Had you discussed title I of this bill before I came into the room?

Mr. FRIEDLANDER. Yes, Senator Barkley; I did.

Senator BARKLEY. I do not want you to do it again then.

Mr. FRIEDLANDER. We are heartily in favor of that portion of title I of the bill which calls for the modernization and alteration and repair program. We are whole-heartedly for that and will support it in every way.

Senator BARKLEY. You are for title III of the bill, which brings the Government to the rescue of the mortgage situation; the guaranty proposition you are opposed to and some others, do I understand?

Mr. FRIEDLANDER. Title I, section 5, and to title II.

Senator BARKLEY. Those are the sections that raise the possibility of objection?

Mr. FRIEDLANDER. That has something to do with it without question. It also raises the possibility of getting the United States Government, without limit, back of a system that has been responsible,

in my judgment, for all the trouble; all the mortgage mistakes of the past.

Senator BARKLEY. It might also be a means of protecting the savings of the people.

Senator ADAMS. You do not mean all the mortgage mistakes, do you?

Mr. FRIEDLANDER. Not all of them. If it is intended that the United States Government shall do it, of course, it can do the job better than private capital.

The CHAIRMAN. Will the tendency be here to stimulate and induce private capital to come out from where it is resting now, in postal savings and in savings banks and other places, for the making of loans for construction purposes?

Mr. FRIEDLANDER. Do you mean on an 80-percent basis?

The CHAIRMAN. Yes.

Mr. FRIEDLANDER. And for 20 to 30 years?

The CHAIRMAN. Yes.

Mr. FRIEDLANDER. We believe it will result in driving more capital that is already in the field out of it than it will bring new capital in.

The CHAIRMAN. That is contrary to the purposes of the bill, I take it?

Mr. FRIEDLANDER. Yes; I am sure of that.

Senator ADAMS. Your 80-percent provision is the maximum, as I understand it.

The CHAIRMAN. Why should it drive capital out?

Mr. FRIEDLANDER. Well, the capital that is in there now, that cannot compete with a Government set-up, and certainly it would drive it from that field.

Senator COUZENS. Have you during all the administration of your league ascertained how many of those defaults and difficulties are due to unemployment?

Mr. FRIEDLANDER. That is quite a large factor, of course, in the matter of defaults.

Senator COUZENS. Have you gathered any statistics on that?

Mr. FRIEDLANDER. We have no statistics on that subject.

Senator COUZENS. Why isn't that an important element in the matter of ascertaining inability of your mortgagors to keep up their payments?

Mr. FRIEDLANDER. It is. In our own individual situation we attempt to find out the cause right up to the time of foreclosure, and I think about 33⅓ percent in the case of our association is due to unemployment.

Senator COUZENS. What about the other percentage?

Mr. FRIEDLANDER. We have a very large percentage due to lack of domestic felicity, which may in turn be due to unemployment, probably, or reduction of income. But we find that divorce, the breaking up of the home, contributes the largest percentage to foreclosures that we have had.

Senator COUZENS. Larger than unemployment?

Mr. FRIEDLANDER. Yes.

Senator COUZENS. In other words, out of 100 percent of your defaults, 33⅓ percent you estimate is due to unemployment?

Mr. FRIEDLANDER. Yes, sir.

Senator COUZENS. What percentage of the balance, or 66⅔ percent, is due to divorce?

Mr. FRIEDLANDER. About 40 percent.

Senator BARKLEY. You are not speaking of normal times but of the past 4 years?

Mr. FRIEDLANDER. As to the past 4 years, as I say, I think a large part of it goes back to reduction in income, but the largest contributing cause is the breaking up of families.

Senator ADAMS. Well, we noticed the other day that there were more vacant houses in Reno than in any other place in the country. How about that?

Mr. FRIEDLANDER. Well, they were probably built as a temporary proposition.

Senator COUZENS. Could you tell me how many mortgages are owned by members of your league?

Mr. FRIEDLANDER. Do you mean in numbers?

Senator COUZENS. Yes.

Mr. FRIEDLANDER. Mr. Bodfish tells me that is about 2,000,000.

Senator COUZEN. Then your 11,000 members have about 2,000,000 mortgages?

Mr. FRIEDLANDER. Yes. The average mortgage is under $3,500.

The CHAIRMAN. We thank you very much.

Mr. FRIEDLANDER. And I thank you very much for your attention.

The CHAIRMAN. You have been very helpful to us.

Mr. FRIEDLANDER. I thank you. Now, Mr. Bodfish has some suggestions he would like to make.

The CHAIRMAN. The committee will now be glad to hear Mr. Bodfish.

STATEMENT OF MORTON BODFISH, EXECUTIVE VICE PRESIDENT UNITED STATES BUILDING & LOAN LEAGUE, CHICAGO, ILL.

Mr. BODFISH. Mr. Chairman, I am executive vice president of the United States Building & Loan League.

The CHAIRMAN. Do you appear now for the United States Building & Loan League?

Mr. BODFISH. Like Mr. Friedlander, I appear on behalf of the national organization of building and loan associations.

The CHAIRMAN. Very well. You may proceed.

Mr. BODFISH. I want to say first that I endorse everything that Mr. Friedlander has said on behalf of our organization. We are very anxious to cooperate in any reasonable program that will restore employment in the building trades. We realize it is a very serious situation, one which affects us on both sides, both as lending institutions, and because so many of our investors are from the building trades. Therefore we are very enthusiastic, as Mr. Friedlander says, for our organization to fully cooperate in behalf of the repair and modernization program.

In fact, our executive committee met in Washington 2 months ago, and one of the principal resolutions debated was a recommendation that the Federal Government should take the lead in sponsoring the whole program, to draw attention to the importance of maintaining the homes of America, of repairing and improving them.

Senator WAGNER. What do you mean by taking the lead? To take these mortgages?

Mr. BODFISH. No. Senator Wagner, the situation is simply this, that the prudent people around the country, due to the uncertainties of the business situation, are a little reticent to spend money on property. There are people who always painted their houses annually and yet who have not put a quart of paint on them for the last 4 years. And we have had attempts around the country to get the people into the spirit of repairing and improving their homes, to get that sort of activity, but it has not gained the momentum it should because it usually led up to the people who had, we will say, bath tubs to sell, or paint to sell, or something of that kind, and who therefore were more or less under suspicion by home owners. We feel that we need a movement behind the thing that will furnish the momentum, and we will gladly cooperate. We think the program developed by Mr. Walker's committee is essentially sound and helpful.

Senator WAGNER. Isn't it true that in a great many of those cases the people did not paint their houses or put in any equipment because the man was unemployed and had no income from which to make the necessary expenditure?

Mr. BODFISH. That is true very frequently. But there are still about 75 percent of our people employed who can make expenditures but who have not, due to the uncertainty of the times, or who have been curtailing very substantially. I think the objective of this program is to get those people who have incomes and can spend it to get into action.

The CHAIRMAN. You may proceed with your statement.

Mr. BODFISH. Now, my purpose before the committee is to present some amendments to this bill in behalf of building and loan associations.

The first thing that I should like to call the attention of the committee to is page 4, section 3, which enumerates the type of institutions that may receive credit from the Home Credit Insurance Corporation and will be asked to cooperate in the program.

Now, the United States Government, through the Home Credit Corporation, is underwriting some very substantial losses in connection with this repair and modernization program. As a matter of fact, if made on single-name paper I think you are going to lose a part of your $200,000,000.

Senator COUZENS. How big a part?

Mr. BODFISH. Half at least. But I think it is socially desirable if you can get half a billion or a billion dollars into maintenance activity. I think that would be even better than to have men raking leaves, because we then have some improvement on permanent property.

Senator COUZENS. Will you tell me how much we would lose out of the $200,000,000.

Mr. BODFISH. Half, I said.

Senator BARKLEY. That is your maximum?

Mr. BODFISH. Yes; as regards the repair and modernization program. With some $200,000,000, plus the bonding power of the Government placed behind this Corporation also for insuring 80 and 60 percent mortgages, construction and existing, I take no responsibility as to a statement in regard to how much you might lose in

that connection. If your insured-mortgage scheme had been in effect when this depression started, the Government would have got into the thing several billions of dollars, in our humble judgment, by this time.

Senator WAGNER. What percentage of the loans would that represent, I mean the loss of $100,000,000?

Mr. BODFISH. I would say 10 to 15 percent.

Senator WAGNER. We had a witness before us who said the experience of the past had been, in loans of that type, that the highest losses had been 5 percent. And that in some institutions, like the American Radiator Co., there had been losses of but 2 percent.

Mr. BODFISH. I was present when the witness testified, and this thought was in my mind at that time: The experience he referred to was largely in connection with lending on chattels, where you can go out and reposses a refrigerator, or reposses an automobile, or reposses some furniture. When you come to improvements on a man's homestead you have no recourse whatever except as may be the general character and intention and willingness of the man to pay the loan.

Senator WAGNER. I thought the witness said they took no security except the land. In case of default for what constituted the indebtedness you had the house.

Mr. BODFISH. Out in my State of Illinois I know of instances where people went out and took furnaces out of homes, which we stopped them from doing. But they took chattel mortgages.

We make this suggestion, that it may be wise, as the Government is going to underwrite the lending operations of a number of institutions, that you confine the guaranteeing of this repair and modernization program to institutions that are subject to some inspection and regulation by either State or Federal authorities. For example, all of our building and loan associations are under State supervision. That is not true of Maryland, but there they are under the supervision of the Federal Home Loan Bank Board, so that there is an inspection of their accounts, and so forth. This thing is broad enough that anything that is called a financial institution could originate this paper, for instance, a little automobile finance concern, or a real-estate corporation, or anything of that kind.

Senator COUZENS. And it often includes personal finance companies, doesn't it?

Mr. BODFISH. The Morris Plan banks and the whole thing. We think it is perfectly all right if they are subject to some public inspection and some public regulation, but you do not want to go out and guarantee loans of just any corporation that may be called a financial corporation. So we present a brief amendment on that behalf.

Senator COUZENS. What is your amendment?

Mr. BODFISH. On page 4, strike out all of lines 23, 24, and 25, and on page 5, strike out line 1, and insert in lieu thereof the following:

Insure such financial institutions as are subject to inspection and regulation under the banking laws or under similar laws of the State or of the United States, including the Federal Home Loan Bank Act, as may apply for credit insurance and be approved.

That would replace the four lines appearing in the bill.

Senator WAGNER. In New York it might be that the insurance department would regulate that.

Mr. BODFISH. That is the thought of that language, to take in the insurance laws or commisions. In some cases there are securities commissions, and there is a variety of language so far as the supervisory jurisdiction is concerned.

The CHAIRMAN. That would come in where in the bill?

Mr. BODFISH. It would replace lines 23, 24, and 25 on page 4, and line 1, on page 5.

Senator WAGNER. Couldn't you say some regulatory body of a State, which would be all-covering? The insurance law cannot be regarded perhaps as a similar law.

Mr. BODFISH. I think that would be a very desirable perfection of the language. The whole thought is that it is to be responsible to some State authority in the handling of funds.

Senator BARKLEY. As a matter of fact, while there are laws in the most of the States dealing with building and loan associations and other similar organizations, some of them are very lax, far from perfect. Wouldn't the insertion of that amendment result in a State, like Maryland we will say, where there is practically no regulation or supervision, that no organization of any kind would get the benefit of this act, except those that now happen to be or that would come into the home-loan bank set up? I do not mean the Home Owners' Loan Corporation. I mean building and loan associations that have come into the banking situation under the act that we passed.

Mr. BODFISH. All the banks and trust companies and mutual savings banks and Morris Plan banks in Maryland are subject to public inspection. And there is an examination of all building and loan associations that are affiliated with the Home Loan Bank System. I think there are some—well, rather a substantial number now that have come in, and more are coming in. I think it would be sound public policy, if you are going to guarantee your underwriting of lending operations of financial corporations, that they should be supervised.

The CHAIRMAN. So that they might be properly supervised?

Mr. BODFISH. Yes.

Senator ADAMS. In Senator Costigan's State there is a statutory provision for the regulation of these installment lending companies, even the personal lending companies and the building and loan associations, but it is a very deficient type. Still it would come within your definition, even though in execution it has been almost a nullity.

Senator BARKLEY. As a matter of fact, this Corporation has entire discretion to grant or withhold any authority conferred by this section.

Mr. BODFISH. Senator Barkley, I think it is best to even protect the administrative body by laying down a principle that is sound and that should be followed. In regard to Senator Adams' comment on Senator Costigan's State—— [Laughter.]

Senator BARKLEY (interposing). Is that a state of mind or a State of the Union?

Mr. BODFISH. I think the State of Colorado is subject to rather severe censorship. With regard to the building and loan history there, it wasn't until 2 years ago that your State attempted to exercise any supervision, and our organization has stood opposed to that condition since 1892. We believe that anybody who takes savings should have the account subject to frequent inspection, and their business policies and dealings should be subject to supervision.

Senator ADAMS. We have had that demonstrated to us in a very cruel way in our State.

Mr. BODFISH. Yes: we are not very proud of the Pueblo situation. That discredits the situation throughout the country.

Senator COSTIGAN. Well, I might say that Senator Adams has more responsibility there than I have.

The CHAIRMAN. Let us proceed with the hearing.

Mr. BODFISH. The second amendment, gentlemen of the committee, that we would like to propose is on page 5, after line 21, to add the following sentence:

> The Corporation shall insure mortgage loans and advances of credit made by present mortgagees to present borrowers willing to make alterations, repairs, and improvements.

Senator COUZENS. Where are you now reading from?

Mr. BODFISH. I am proposing an amendment in the form of a sentence to be added at the end of line 21, on page 5, of the bill.

Senator WAGNER. Will you please read that again?

Mr. BODFISH. We propose an amendment on page 5 of the bill, at the end of line 21, by adding the following sentence:

> The Corporation shall insure mortgage loans and advances of credit made by present mortgagees to present borrowers willing to make alterations, repairs, and improvements.

Now, I should like to add the reason for that amendment. We had some conferences on this bill with several gentlemen. One of the things that was suggested was that no present mortgagee would be permitted to have further advances and have it insured under the regulations of the corporation. Well, a fellow who does not have any mortgage on his home can borrow money now. And the principal volume of repair work you are going to get is where present mortgagees encourage their borrowers to improve their properties.

Senator BARKLEY. Where can a man who hasn't a mortgage on his home borrow any money?

Mr. BODFISH. In the city of Chicago I am connected with a building and loan association that has been lending money now for some time, and we have about $125,000 on hand at the present time. It is making loans right along, and we are very glad to have some people who have loans. The principal applicants are those who made loans in 1927, 1928, and 1929, who now have 100- to 110-percent mortgage on their properties. The principal factor against the placing of a mortgage at the present time is the fact that a man is reluctant to encourage further mortgage indebtedness. The fellow who has felt the realities of real-estate deflation and knows that values have fallen 40 percent makes for a situation of nonborrowing. And there is a thought about the Government insuring up to 80 percent on mortgages.

Senator BARKLEY. One of the complaints I receive in the mail with reference to the operations of the Home Owners' Loan Cor-

poration is from people who do not have mortgages but who would like to place mortgages but are prevented from borrowing from them, and cannot get the money from the bank or apparently from anybody else. If you have any money in Chicago to lend you must have a peculiar situation there from that which exists elsewhere. I mean if you are willing to lend. There is plenty of money in the banks and other institutions but there is the combination of fear on the part of the lender and of caution on the part of the borrower that dries all this money up.

Mr. BODFISH. There are two comments I should like to make in response to your statement, Senator Barkley. The Home Owners' Loan Corporation can make rather substantial advances on properties if they are urban properties. The second point is, you mention that banks are not lending money. One of the most fallacious assumptions is that by some arrangement, such as guaranteed mortgages, you can put the commercial banks of this country into long-ferm nonliquid credit. It is not sound, and has never been attempted in any European country, and they have a very much better mortgage-banking system. Their provision is much better than ours. I think you have to look to the community-savings institution primarily for these mortgage loans, where small savers make long-term investments.

Senator BARKLEY. Does your amendment contemplate the guaranteeing of the present loans, those outstanding?

Mr. BODFISH. No. This amendment is merely to make certain that if any building and loan association or mutual savings bank—and I might say that we have 400 mortgages, and if in response to this campaign we go out and make further advances to repair 100 of those properties, that we can get those further advances insured, the same as the General Motors Acceptance Corporation when it goes out and makes an advance, as is contemplated under this legislation. We merely want to make sure of that, because the proposal was made that we lend on the other fellow's properties that he had mortgaged, and he lend on ours. There is no building and loan association that can lend on second mortgages.

Senator BARKLEY. The General Motors Acceptance Corporation is limited to the financing of automobiles, isn't it?

Mr. BODFISH. That is my understanding; and that——

Senator BARKLEY (interposing). I did not know that they engaged in the practice of lending money to repair houses, or if so, I had not heard of it.

Mr. BODFISH. It is my understanding that that is the program in connection with this legislation. And one of the officers of that corporation was the principal man investigating the question of preparing this measure, and it was perfectly satisfactory to him, anything that would naturally finance home repairs. We want to make sure that our institutions can participate in this program.

The CHAIRMAN. Is there any idea that there is to be any security at all for those advances, or that this is to be the personal obligation of the owner?

Mr. BODFISH. That is the explanation given in the earlier hearings. But, so far as the building and loan associations are concerned, there are none out of the 11,000 that can make an unsecured advance. We

will either have to take a junior mortgage, which we can do, we can take a junior mortgage when we hold the prior claim, or under many of our mortgages we can make a further advance for the purpose of improving the property. So ours would all be secured.

Senator BARKLEY. If your first amendment were adopted, that would preclude the General Motors Acceptance Corporation from being eligible. They are not inspected or supervised by any State. Therefore, they would not be able to come in under this law.

Mr. BODFISH. I do not know whether they are subject to public inspection or not. I would hope so, as they have three hundred or four hundred million dollars.

Senator BARKLEY. I do not think they are; and any other company that was in the nature of a bank or a building and loan association subject to the supervision of State laws would be barred from the provisions of this bill.

Mr. BODFISH. Oh, no. We would want to include everybody who was under any form of inspection.

Senator BARKLEY. And you would want to exclude everybody who was not.

Mr. BODFISH. If you cannot take in the General Motors Acceptance Corporation without taking in all of the little concerns around Chicago, I do not know why you should include the General Motors Acceptance Corporation. Incidentally an amusing question could be raised as to whether the installation of a refrigerator is an improvement or not.

Senator BARKLEY. I think a lot of these concerns that are inspected by States are worse than those that are not. There is no virtue in some company that happens to be inspected by some State examiner. If you are going to bar everybody, regardless of their instrumentalities or facilities to accommodate the public, because some State legislature has not passed a law to supervise them, you will destroy about half of the usefulness of this measure. I realize that there are a lot of fly-by-night organizations that ought not to be allowed to come in, but, after all, the board of directors has discretion to decide who may or who may not come in.

Mr. BODFISH. I want to say sincerely that we have no desire to destroy the usefulness in any way of the modernization proposal, if in your judgment it would really destroy it.

Senator BARKLEY. I am simply thinking out loud, because that is a habit I have.

Mr. BODFISH. I cannot agree with you that it would destroy it.

Senator GOLDSBOROUGH. As to the Maryland building and loan associations not being supervised, I think I can direct your attention to the fact that it was through the building and loan associations of that State that 75 percent of the smaller homes in the city of Baltimore have been built.

Mr. BODFISH. That is true.

Senator GOLDSBOROUGH. And that city in relation to its population has more homes owned by the people than any city of its size in the country, I believe.

Mr. BODFISH. We have no desire to bar the building and loan associations of Maryland.

Senator GOLDSBOROUGH. Someone says except Milwaukee. I do not know about that city. So I do not think your observation really applies with very great strength to Maryland.

Mr. BODFISH. Well, we have no desire to bar the building and loan associations of Maryland at all.

The CHAIRMAN. You may continue your statement.

Mr. BODFISH. Now, directing your attention for the moment to section 5, title I, which appears on page 6 of the bill. Mr. Friedlander rather fully differentiated the reasons why we are apprehensive about the establishment of the guaranteed mortgage system under the sponsorship of the Government. We do not feel that it is proper for us to oppose this proposal because it does not help the employment of labor unless we make some constructive suggestion.

Senator BARKLEY. Are you able to submit any statistics as to what would have happened under this guaranteed mortgage proposal during the last depression?

Mr. BODFISH. I have prepared no statistics along that line. Of course, there are 21 billion dollars of mortgages around the country, and about a billion and a half of them are under the guarantee basis. With a real-estate deflation of 40 percent I suspect if that 21 billion dollars had been on this guaranteed plan you would have had a very substantial accumulation of property in the hands of a Government corporation.

Senator BARKLEY. You are assuming that this Government corporation will be run just as the real-estate mortgage houses were run in 1929, are you?

Mr. BODFISH. Oh, no.

Senator GORE. How about if anybody asked you for a loan, and Senators and Representatives got back of them?

Mr. BODFISH. Well, the suggestion we want to make in lieu of section 5 is that you gentlemen increase the bonding capacity of the Home Owners' Loan Corporation approximately half a billion dollars, and place that corporation in a position to furnish funds on a share-purchase basis or a deposit basis to mutual savings banks, building and loan associations, and savings loan associations, such money to be earmarked for loans for the employment of labor.

Senator BULKLEY. Your suggestion is that the Home Owners Loan Corporation should buy shares of building and loan associations.

Mr. BODFISH. Yes, sir; to develop that a little further. Let me say: If you gentlemen want immediate employment in the building trades here are thousands of existing going institutions, with all the machinery, and they can make the loans. They are somewhat reticent to pledge their collateral and exhaust their lines of credit, to borrow money, to have any more creditor obligations, in order to put new business on the books. That is a perfectly normal thing for a group of business managers to do, and our suggestion is that if you want some financing of residential construction immediately that you put the Home Owners' Loan Corporation in position to put some earmarked funds in the hands of either insurance companies, mutual savings banks, or building and loan associations.

We ask no insurance or guarantee of that, and I think if it is prudently placed we can demonstrate that the Government will not only get its money back but the cost of its service.

Senator GORE. You think that, you say?

Mr. BODFISH. I think that very sincerely. I think there are thousands of very responsible locally managed institutions around the country that will cooperate in such effort, and that will see that the funds are returned to the Government, and that proper interest is paid for those funds.

Senator GORE. And will you keep the people, who own the Government, from beseeching their Senators and Congressman for liberalizing the act more and more?

Mr. BODFISH. I think sooner or later you will have to do it.

Senator GORE. How about payment of those bonds? If they are not paid the Government will have to do it.

Mr. BODFISH. You will have to decide that the United States Government cannot make direct loans to individual citizens and collect them back.

Senator GORE. I am glad to hear you say that, because I thought I was the only person in the world who had that thought.

Senator COUZENS. Oh, no.

Mr. BODFISH. I think, however, you can go down to a building and loan association at Shawnee, Okla., and give the manager there $100,000 of Government money, and let him lend it to the individual citizens of that town, and he will collect all of it and return it to the Government.

Senator GORE. I should like to ask if you have made a study of the need for this legislation. I see vacant houses everywhere. They are glaring at you through vacant windows.

Senator BULKLEY. But this is for renovation, Senator Gore.

Mr. BODFISH. This is to take the place of section 5, the new construction section.

Senator GORE. All right. Go ahead.

Mr. BODFISH. Now, speaking to Senator Gore's question regarding the need for new homes, there is no question but what there is a need for proper housing, that there is some demand for some small-home construction around the country at the present time. It is spotty. It is not widespread or anything of that character, but if reasonable credit were available and encouragement were given to the matter, there are a lot of people who do not own a home and would want to build at the present time. I will say quite frankly that they have been considerably discouraged in regard to building material prices in the last 6 months.

Senator GORE. I was talking to a contractor on Saturday and he stated that building materials had gone sky high.

Mr. BODFISH. Building materials and labor have gone up. But I think readjustments will mean that they will find proper levels. If the law of supply and demand is permitted to operate we will get residential construction.

Senator GORE. Do you distinguish between a desire for new homes and a demand for new homes?

Mr. BODFISH. Senator Gore, I used to be a college professor, and I admit it with some embarrassment now, but we used to teach our sophomores that there was potential demand and effective demand. There is a lot of potential demand for homes now. And as business improvement increases, which we hope will be the case, there is going to be a very substantial amount of activity in the building

of small homes. There is no question about it in my mind at all. Rents are going up some at the present time, and vacancies are pretty well down in many cities. This little building and loan association that I referred to a while ago in Chicago made four construction loans in the last couple of months.

Senator GORE. Does this apply to both city and country?

Mr. BODFISH. Our proposal deals with institutions that operate primarily with regard to urban homes.

Senator GORE. And we have a movement on the way to get people out of the city and back into the country, which would lessen the demand for city homes. But I do not mean that that ought to make any difference.

Mr. BODFISH. With a resumption of industrial employment you will find the country boys will go back to town. In a year or two, if we have any business recovery, we will boom in the small construction field.

Senator TOWNSEND. What has been the increase in cost of construction?

Mr. BODFISH. We made a check-up cost of building a 6-room house, and you will understand that I am quoting figures from memory, and it was in Grand Rapids, Mich., Senator Couzens; and as I recall, we were as to present costs, and this included both labor and material, within 10 percent of the 1929 high; that is, I mean at the present time. And we were about 25 percent above the lows of 1931 in the case of building materials.

Senator TOWNSEND. The dealer in building materials is not permitted to discount that price for his material under the code, is he?

Mr. BODFISH. That is my understanding, although I also understand that the code group and the N.R.A. are beginning to see the wisdom of lower building material prices somewhat, and have taken some steps in that direction. But of course there was the reason for the quick move in building material prices, was the N.R.A. code in that connection.

The CHAIRMAN. How about labor?

Mr. BODFISH. Well, I am really quite reluctant to discuss labor in the construction fields, because I think we have there the worst side of organized labor. We have a rather poor labor situation in that connection. The idea of plasterers in Washington getting $1.12½ an hour and striking for $1.37½. It is improper. I believe in higher wages and everything else, but it has been a little overdone along this line here.

Senator GORE. The Secretary of Labor decided that the proper price was more than a dollar an hour when private contractors are paying $8 a day.

Senator WAGNER. I think in that connection you ought to consider what the prices of things which the worker has to buy are, whether they have increased or not. As a matter of fact, have you ever had a chance to study the figures during the so-called "prosperous" years and see the line of profits, to what extent they increased as compared to the increase in wages?

Mr. BODFISH. Well, wages always lag, and I think it is a very undesirable thing. I think we ought to find vehicles under both to stabilize them.

Senator WAGNER. They not only lagged here but there was a disproportion which resulted in a general catastrophe.

Mr. BODFISH. Well, in the building trades wages never lagged very much.

Senator WAGNER. But generally speaking, since a year ago prices have gone up very much more than wages. The result is that the worker has received perhaps an increase of about 10 percent, yet prices of the things he has to buy have gone up more than that. I am not speaking of this particular case, and you may be right about that, and it may be an unjust demand; but, generally speaking, that statement is so frequently made, and it is not justified.

Mr. BODFISH. I agree with you completely. I think, however, the careful observer will agree that the situation of the building trades has been substantially different from that of general labor. Of course, they have had more seasonal employment, which justified it somewhat.

Senator GORE. Still there are 10 million unemployed in the country, and in November 50 million people were eating at the expense of the taxpayers.

The CHAIRMAN. Mr. Bodfish, do you oppose section 5 of the bill?

Mr. BODFISH. Entirely. And in the amendment I am presenting on behalf of our people we have a substitute program that we think would be more immediate and more feasible to use the existing agencies. To use the Home Owners' Loan Corporation and the Home Loan Bank System and get a start if you gentlemen want immediate action in connection with the employment of the building trades.

The CHAIRMAN. Have you a substitute for section 5?

Mr. BODFISH. Yes. It is rather long, and I doubt if you want me to read it, but in essence it provides for the purchase of shares——

The CHAIRMAN (interposing). We want it to go in our record.

Mr. BODFISH. All right.

Amendment: On page 6, lines 8 through 25, and on page 7, lines 1 through 8, strike out all of present section 5 and insert in lieu thereof the following:

SEC. 5. The Home Owners' Loan Act of 1933 as amended is further amended by inserting after Section 5 a new section as follows:

SEC. 5½ (a). In order to contribute to the employment of labor, particularly in the building trades, the Home Owenrs' Loan Corporation is authorized to subscribe for shares, stock, make deposits, buy certificates of deposit, investment certificates, or make loans as follows:

(1) To subscribe from time to time for any amount of full-paid income shares of Federal Savings and Loan Associations.

(2) To subscribe for any amount of shares in building and loan associations, savings and loan associations, homestead associations, or cooperative banks organized and operated under State charter or under the supervision of the Comptroller of the Currency of the United States and which are members of a Federal Home Loan Bank: *Provided*, That no share shall be subscribed for if such institution accepts deposits or has any other shares which are preferred as to dividends or in liquidation to such shares so subscribed: *And Provided further*, That the institution in which such shares are subscribed is in such financial condition as to be able in the judgment of the Board of Directors of the Corporation to pay dividends at a rate of at least 3 per centum per annum.

(3) To make deposits or purchase certificates of deposit or investment certificates in mutual savings banks and stock savings banks, provided such banks are members of a Federal Home Loan Bank and provided the same are in such financial condition as in the judgment of the Board of Directors of the Corporation to be able to earn and pay on such deposits, certificates of

deposit, or investment certificates at the rate of at least 3 per centum per annum.

(4) To make loans to insurance companies which are members of a Federal Home Loan Bank, to bear interest at the rate that such companies earn on their investment capital, provided such companies are in such financial condition as to be able to earn, in the judgment of the Board of Directors of the Corporation, at a rate of at least 3 per centum per annum.

(b) The funds authorized by this section to be invested, deposited, or loaned shall be invested, deposited, or loaned, in the discretion of the Board of Directors of Home Owners' Loan Corporation so as to contribute to the employment of labor and the maintenance, repair, modernization, enlargement, building, and financing of homes, and combinations of homes and business properties, and so as to promote thrift and strengthen the savings and home-financing institutions receiving and administering such funds.

(c) Such funds shall not exceed $500,000,000, and shall be invested, deposited, or loaned for the full term of 5 years, and thereafter to be withdrawn, repurchased, or mature, as the case may be, at the discretion of the Board of Directors of Home Owners' Loan Corporation, but not to exceed an amount equivalent to 10 per centum of the original amount of any such investment or deposit or loan in any one year.

(d) The Home Owners' Loan Act of 1933, as amended, is hereby further amended by striking out from Section 4, subsection (c), thereof, "$2,000,000,000" and inserting in lieu thereof "$2,500,000,000."

I want to make one more comment before passing section 5. I think our building and loan associations are closer to resuming normal lending operations at the present time than they have been at any time in the 4 years of the depression. We have been assisted rather substantially by the Home Owners' Loan Corporation. We have gone through the difficult period of application for admission to the home-loan bank system, where they examined us from top to bottom, and some 2,500 associations have been admitted, and some 2,500 more are on the way to admission, which, incidentally, was a good thing, because it was a voluntary joining of the system by these thrift and home-financing institutions. All the credit of these institutions is now available to some 2,500 institutions, and we think we can function if we do not encounter somethig here to discourage the directors and investors of these institutions.

I should now like to call the attention of the committee to page 7 of the bill, section 6. I want to have the committee note that in order to carry out the purposes of repair and modernization, and also in order to carry this insurance of mortgage proposal that is in section 5, the unlimited credit of the Federal Government is placed behind these proposals. They are obligations that are not limited in any way and are to be guaranteed as to principal and interest by the United States.

Senator GORE. Are those repairs?

Mr. BODFISH. If I may repeat the statement I made a moment ago, the essence of this proposal is that there is a credit corporation with $200,000,000 capital established, and——

Senator GORE (interposing). In this thing?

Mr. BODFISH. Yes.

Senator GORE. Is that to be a new institution?

Mr. BODFISH. Yes. To guarantee two types of mortgage loans. One of them is for repairs, modernization, and alterations, and the other one is to be long-term mortgage loans made for construction of new homes by refinancing existing mortgages. It is the latter part of the program that we object to very strongly on behalf of the building and loan associations.

Senator GORE. Does the repair and modernization program include air conditioning?

Senator COUZENS. Sure. That is the motive behind the bill.

Senator BARKLEY. Well, there is a good deal of air conditioning that goes on here in the committee room regardless of law.

Senator GORE. Yes; but that is hot air, and this would be cold air. It may be that they will neutralize each other.

Mr. BODFISH. I call attention to the bonding power in passing——

Senator BARKLEY (interposing). If the committee should see fit to adopt your amendment as to section 5 of the bill, Mr. Bodfish, would you still oppose the provisions of section 6?

Mr. BODFISH. If they will adopt my amendment, it is not necessary to change that.

Senator BARKLEY. Why?

Mr. BODFISH. Because, while you can involve a lot of money in this repair and modernization program, yet you can involve millions when you guarantee mortgages. It can run into the billions of dollars.

Senator COUZENS. Under this provision I understood your predecessor to say you could engage in any activity along almost any line.

Mr. BODFISH. It would be a replica of your joint-stock land banks. They were corporations operated for private gain. I think it flies in the face of everything we tried in building and loan associations in 1890, and that was the first great mortgage debacle we had in this country. And the first mortgage concerns to fall in this depression were concerns trying to operate Nation-wide, and some of which had a guaranteed mortgage scheme. In Senator Wagner's State of New York the legislature was engaged for a year and a half trying to reinstate them. It shocks us that this bill, proposed under Federal sponsorship, should repeat that on 80-percent loans.

Senator GOLDSBOROUGH. And you think that would be dangerous, do you?

Mr. BODFISH. I think we ought to go into the stock-promotion business if this bill were to pass.

Senator BULKLEY. That is, the joint-stock land banks were limited in the matter of territory?

Mr. BODFISH. Yes.

Senator GORE. And nearly 100 percent of them failed?

Mr. BODFISH. This concern proposed here could roam up and down the land.

Senator GORE. It is the free and unlimited coinage of mortgages, isn't it?

Mr. BODFISH. Senator Gore, that phrase is worth a trip to Washington. However, in the matter of unlimited coinage of mortgages, let me say——

Senator GORE (interposing). I just got back from Oklahoma this morning and was anxious to know something about this bill.

Mr. BODFISH. This Corporation could have any sort of capital-stock set-up that its promoters might develop and that it could get approved here in Washington. And I think it very unsound to bring stock promotion and stock selling in a broad way into the home-financing field. My studies of the situation—and they began before I had any direct connection with building and loan associations—

led me to the conclusion that a sound home-financing structure should be based upon the development of the local cooperative institutions, managed by local citizens, and making loans that went beyond the limits to which a prudent life-insurance company should go. Just like your building and loan associations made 66⅔ percent or 70 or 75 percent mortgages, because they were local institutions, and they were a combination of real estate and character loan.

Senator GORE. And it was one business in this country that had remained decentralized, and it had succeeded, and it was distressing to me when you came here and insisted upon getting on the doorstep of the Government.

Mr. BODFISH. We set that structure up very conservatively, and we merely wanted a device by which we could cooperate with each other, and our participation has been along that line.

Senator GORE. I think your word "device" is a good point. And I think your feet are in the stocks, and I do not know how you will ever get them out.

Mr. BODFISH. I hope the Federal Government will encourage sound local cooperative institutions. That is the only way in the world you can make 75-percent or 80-percent loans and ever hope to collect them back. It is when a little group of neighbors makes a loan to somebody they know. That is the reason for the Federal Government to conceive one savings and loan program.

Senator GORE. That presupposes a little good luck, does it not?

Mr. BODFISH. Yes. But our mortgages are being paid back, not because the real-estate values are so essential today but because of the kind of people we deal within this country are essentially honest and are dealing with their neighbors. They will pay off their debts to them.

Senator GORE. And they are not letting their loans become distressed.

Mr. BODFISH. I wish you had not mentioned that subject. But our problem of the past year has been to lend to men who can pay, who were not borrowing in the hope of getting a public handout.

Senator GORE. And there were men that the Government of the United States invited not to pay.

Mr. BODFISH. The $2,000,000,000 given to the Home Owners' Loan Corporation—and I had a modest part in the planning of that Corporation—was employed to take care of short-term mortgages in this country. But the publicity and the public psychology that flowed from it caused many people to cease to carry along their obligations; I mean people that had full capacity to do it. Out in my town the first man to get a H.O.L.C. loan was a man who had been on the public pay roll for 6 years.

Senator WAGNER. Hasn't your organization transferred some loans to the Home Owners' Loan Corporation? And are you sure there was a need for the transfer?

Mr. BODFISH. For the first 7 or 8 months' operation of the Corporation the whole responsibility was on the mortgagee to decline to take the bonds if the borrower could make his payments. I cannot describe to you the pressure that they put on our interest rates.

Senator WAGNER. I agree with what you say. But I want to know if your own association was unable to meet the demands upon it.

Mr. BODFISH. We have signed no consents in our own association unless the man was unemployed or merited relief. If he is just a chiseler we see to it that he pays his obligation.

The CHAIRMAN. You may proceed.

Mr. BODFISH. I believe we had gone on to title II, and we hope the committee will strike that from the bill rather than establish national mortgage associations to roam up and down the land, because it is the considered judgment that you will regret it if you do it.

Senator GORE. It parallels pretty much the joint-stock land banks, doesn't it?

Mr. BODFISH. There is nobody who can organize one except one who has a lot of mortgages or some New York title company. You have to have $5,000,000 of capital.

Now, passing to the Federal Savings & Loan Insurance Corporation——

The CHAIRMAN (interposing). That is title III, isn't it?

Mr. BODFISH. Yes, sir. The first amendment I want to bring to the attention of the committee is on page 21, lines 16 to 22. We propose to strike out that paragraph and insert, instead of it, the following language——

Senator WAGNER (interposing). Are you connected in an official capacity?

Mr. BODFISH. I left my duties in Chicago, not only in the Northwestern University but my business connections at the time when the original home loan bank act was drafted, and had some part in setting it up. I was a member of the original board.

Senator WAGNER. You were a member of that board?

Mr. BODFISH. I was the only Democratic member, and I am very happy to be back in Chicago.

The CHAIRMAN. You may proceed.

Mr. BODFISH. Gentlemen of the committee, this Federal Savings & Loan Insurance Corporation plan is a very important and vital thing. There was some difference of opinion on it, but we have decided that on account of the flow of savings away from the long-term investment institutions, such as ours, that we will have to have some sort of similar protection just in order to answer the public psychology until we get back to normal functioning. Checks that come back from withdrawing shareholders quite frequently now in increasing numbers come from savings deposits of insured banks or postal savings. So we have the unwitting fact of guaranteed bank deposits pulling funds away from the long-term investment field and putting them into commercial bank vaults, where they are inactive at the present time. We hope this will tend to bring the flow back and help to furnish money for home financing.

Senator GORE. I have not read the bill, Mr. Bodfish, and I wish you would tell me what is the point in this.

Mr. BODFISH. I do not know whether I better tell you about it or not.

Senator GORE. Well, I have my suspicions.

Mr. BODFISH. It is to establish for the thrift and home-financing institutions a Government corporation similar to that provided for banks in insuring the repayment to investors within a reasonable time. In other words, the proposal is that building and loan asso-

ciations, such as care to, will contribute an annual premium to a common fund, such premium to be sufficient to more than cover any experienced losses we have had.

Senator GORE. Would there be any reason why they could not organize and go ahead without being federally placed? Pardon my nerves.

Mr. BODFISH. Well, Senator Gore, that is a hard question. I think they could. As a matter of fact, one State has done it—Massachusetts. It has organized a State guaranty of building and loan investments.

Senator GORE. Has it succeeded?

Mr. BODFISH. It was just organized 3 or 4 months ago.

Senator GORE. Why not admit that there is something left in the universe that a State can do? It is a rather violent assumption, no doubt.

Mr. BODFISH. Well, Senator Gore——

Senator GORE (continuing). I see you still have some remnants of your democracy left.

Mr. BODFISH. My mother was a Cleveland, and that is the kind of democracy I think.

Senator GORE. Well, we will get off together some time and have a talk.

Mr. BODFISH. I should like to make this statement in fairness to both of our previous remarks. There are two theories about recovery. One is that natural forces can do it and the other is that the Government can do it. We have embarked upon a plan that the Government shall do it, and we are encouraged so far.

Senator GORE. Well, I am afraid you are getting away from the old landmarks now. Isn't this a sort of Government necromancy, and isn't it undertaking to do everything? Won't every other agency in the country be like those mammals that have rudimentary muscles, when they cease to use them they cease to function?

Senator WAGNER. Mr. Bodfish, are there any economists who seriously believe that in March a year ago we should have sat down and done nothing by way of stopping the situation?

Senator GORE. But if you go back to an earlier time and make a better start, and there never had been created the conditions that you have to adapt yourself to, it would be different. If a man stabs himself in the breast, of course, he needs medical attention.

Mr. BODFISH. I will make one onswer to that question and then will revert to our amendment. As an economist I think the Government had a distinct responsibility on March 4 because our principal problem was the weakest commercial banking system in the world, which had been developed largely by the Government and under Government sponsorship, and there was no other vehicle for stopping the situation which was developed.

Senator WAGNER. We had 15 million people out of work at the time.

Mr. BODFISH. That is true.

Senator WAGNER. And the resources of the most of them were gone.

Mr. BODFISH. If we had had a sound-credit structure in this country we would not have had half of that unemployment, in my judgment.

Senator GORE. You had 15 million unemployed, which was tragic, but you are developing a class of leaners on the Government which is no less tragic.

Senator WAGNER. I prefer guidance and assistance to going to the dole. We cannot let people starve.

Mr. BODFISH. That is true.

Senator WAGNER. And you should not permit that.

Mr. BODFISH. No; certainly not.

Senator COUZENS. Let us go on with our consideration of the bill.

The CHAIRMAN. Yes. Let us proceed.

Mr. BODFISH. On page 21 of the bill——

Senator GORE (interposing). I infer from that remark that Senator Couzens has no occasion to appeal to the dole.

Senator COUZENS. That is a violent assumption.

Mr. BODFISH. On page 21 of the bill, lines 16 to 22, we propose to strike out that section and insert the following language, and if I may I will read the language and then explain it. This relates to the management of the Federal Savings & Loan Insurance Corporation——

Senator GOLDSBOROUGH (interposing). On page 21, section (b)?

Mr. BODFISH. Yes. In the present bill it is placed in the Federal Home Loan Bank Board. That Board has a 2½ billion dollar Home Owners' Loan Corporation on its hands. The Federal home-loan bank system, the Federal savings and home-loan system——

Senator GORE (interposing). What was that?

Mr. BODFISH. The bill proposes that the management of this Federal Savings and Loan Insurance Corporation shall be placed in the hands of the Federal Home Loan Bank Board. That Board of five men already has the Federal home-loan bank system. This is a job in itself in my humble judgment.

Senator GORE. Have you ever considered the advisability of guaranteeing all open accounts on the part of merchants, by the Government?

Mr. BODFISH. Senator Gore, let me say that now our proposal is that that Board has already got more than it can carry. It has a 2½ billion dollar relief operation which will run for years. They have the Federal home-loan bank system with 12 banks, with approximately 100 million dollars capital out. They have the Federal Savings and Loan Association. They have started about 300 of these associations very similar to the old——

Senator GORE (interposing). To the little banking concerns with Federal charters.

Mr. BODFISH. Yes; our thought is that this guaranteeing of building and loan investments is a very delicate and vital thing. They must examine a large number of institutions, and they will have to see that these 2,000 or 4,000 are perfectly safe places for the public to put their money. We are going to insure their accounts up to $2,500 or $5,000. Our thought is that while the management of that thing should be tied in with the Federal Home Loan Bank Board, which runs the reserve credit of those institutions, that there should be a couple of men responsible to the Congress and the President of the United States to handle that business. Our suggested amendment is as follows:

The management of the Insurance Corporation shall be vested in a board of trustees consisting of three members, one of whom shall be the Chairman of the Federal Home Loan Bank Board and two of whom shall have had five years' experience in thrift and home-financing institutions and who shall be citizens of the United States to be appointed by the President of the United States by and with the advice and consent of the Senate. The President shall designate one of the appointed members as Chairman of the Trustees and not more than two members of the Trustees shall be members of the same political party. After this Act takes effect the President shall delegate one of the said appointed members of the Trustees for a term of three years and the other for a term of six years and their successors shall be appointed for terms of six years. Any vacancies shall be filled for the unexpired terms. Each appointed Trustee shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Insurance Corporation, but the Chairman of the Federal Home Loan Bank Board shall not receive additional compensation for his services as a Trustee.

That follows the theory and thought and language largely of the management of the Federal Deposit Insurance Corporation covering the banks. We feel that that will tie in and still give this very important responsibility to a couple of outstanding citizens.

The next amendment I wish to offer is on page 23 of the bill——

Senator GOLDSBOROUGH (interposing). That is in place of the figures "$2,500"?

Mr. BODFISH. Yes; the people who saved their money in building and loan associations are mainly the folks who decide on saving by means of a program of $10 or $25 or $50 a month in anticipation of a home purchase, or the accumulation of a fund for some proper purpose. Also, in many of our associations borrowers do not pay directly on their loans but accumulate share credits. That is true of Pennsylvania, New Jersey, and many other States. The share accounts are a real risk to the borrower because what he is doing is accumulating a sinking fund which will ultimately cancel out his loan.

There were some earlier conferences on this bill, and the banking commissioner of Pennsylvania thought, especially on account of the interest of the borrower, the insurance limit should be at least as much as $5,000. The most of our loans run from $3,500 to $4,000.

We therefore suggest that the surety amount be placed at $5,000 rather than at $2,500. I think there is some distinction in the insurance here that is decidedly real, and that $5,000 would be sufficient.

Senator COUZENS. What about the premium?

Mr. BODFISH. Senator, the way the bill is drawn there are enough premiums to pay 10 times the losses that have ever been experienced by all the building and loan associations put together. Of course the amount of premium we are suggesting should go on a true insurance basis. We feel institutions should pay an annual premium and ultimately accumulate a 5-percent fund, and then the premium ceases. That comes up in the next amendment that I desire to suggest as a graded premium.

In other words, take the building and loan association in Canton, N. Y., Senator Wagner. It has accumulated about a 9-percent reserve over a period of 30 or 40 years. That means extremely prudent management of a cooperative institution. I do not mean a liquid reserve or secondary reserve; I mean a true surplus. Our thought is that that institution has provided a substantial amount of its

own insurance. If it should be taken over by Mr. Broderick tomorrow morning there would be little possibility of the insurance company's having to underwrite any losses. Therefore we are proposing a lower premium for an institution that has more than a 5-percent real reserve, as determined by examination of the insurance corporation. We like to have an incentive to accumulate a substantial reserve. I think that would have been a sound principle to have embodied in the banking-insurance legislation. If you could have recognized an exceptionally strong bank and considered that it was not responsible for the situation as much as this much more risky institution down the street——

Senator WAGNER. Where you make an approval of a mortgage to the Home Owners' Loan Corporation and you do not get the full face value of the mortgage in the way of a return, and where you have got to reduce your principal, how do you handle that?

Mr. BODFISH. The associations the country over have accumulated, I would say, about a 2½ to 3 percent real reserve, and we have had to take loans on H.O.L.C. bonds, inasmuch as we charge them out of these contingent reserves. That is what we build them up for.

Senator WAGNER. Yes; I do not criticize you at all. It is fortunate to have that reserve to meet contingencies.

Mr. BODFISH. We feel that the graded-premium idea recognizes good management and gives an incentive to the weaker institutions to build up their surplus position and that it is a sounder and more sensible proposition than the blanket plan provided in the bank proposal.

Senator WAGNER. And, as I understand it—perhaps you know more about it than I do—they set up no reserve of any kind, or a very slight one.

Mr. BODFISH. They do another interesting thing: They try to guarantee 50-percent mortgages conservatively made on one half of 1 percent per year. I think the results there are the most eloquent testimony in opposition to attempting to establish that guaranteed mortgage scheme. Here is the fundamental of money loaning that it violates: Under that set-up which is proposed here, when they make a mistake it goes on from the insurance corporation to the Government. Any time in history when we have people lending money and they get their remuneration from lending money and not collecting it back, they get into trouble. That is an exact common-sense proposition that they will dump that guaranteed mortgage scheme sooner or later. They have the responsibility of collecting it back at the end, because they get their capital by dumping it on to the insurance corporation, and you will get some rather fantastic loans.

The next amendment is on page 24, a very brief one, lines 7 and 8. The idea of this insurance, as Mr. Friedlander pointed out, is not to insure liquidity or payment on demand of an institution when it defaults. The only time insurance is paid is when the institution is taken over either by a court or some other public official. This proposal is that when it is taken over the investor who has a $5,000 account be given, out of the working capital of the Insurance Corporation, 10 percent right on the nose so that he has got something to satisfy him and tide him along. That is, to give him a debenture

of the Corporation for half of the balance of his account due in 1 year, and another debenture for the other half due in 3 years; in other words, to give the Insurance Corporation 3 years to liquidate the assets. It is a guarantee of solvency only. We think that the Corporation can pay 3 percent on those debentures because they know they will be paid in 2 or 3 years and they will enjoy a market value of 98, 99, or 100. We ask no Government guarantee of that.

Senator GORE. Not yet.

Mr. BODFISH. We just want them to be a debenture of the Corporation, but we want the Corporation authorized to pay 3 percent on those debentures so that if a man has a debenture for his insured account he will not have to go out and sell it at 92. Therefore, we want to strike out the words "negotiable non-interest-bearing" and insert:

"member, the cash herein provided and negotiable debentures of the Insurance Corporation bearing interest at the rate of 2 percent per annum for".

It is purely a debenture to the Corporation because the Corporation will have the earnings from the assets of this defaulted institution when it takes it over. It is a perfecting amendment.

Senator GORE. It is the insurance agency which you are setting up that is issuing these debentures when it takes over a failed concern?

Mr. BODFISH. When it takes over a defaulted concern it pays 10 percent in cash and half the balance in a debenture due in 1 year and the other half in a debenture due in 3 years. We feel that they should get a debenture that pays 3 percent interest. The corporation can pay it. It is not a claim on the Government.

The next amendment that we suggest is on page 25, at the end of line 9. There is a very real and difficult problem in the administration of this new process of duplicating examinations. We have the States examining institutions and the Federal Home Loan Bank Board, and then if we have an insurance corporation, we will have the insurance corporation examining them; and all those examinations cost money and harass these institutions.

Senator GOLDSBOROUGH. We have been familiar with that from the hearings on the stock-exchange control bill.

Mr. BODFISH. So we propose the following addition, which will at least state it to be the policy of Congress that there are not to be duplicated examinations unless the trustees feel that it is necessary. Our amendment provides as follows:

All examinations shall be made by the Federal home loan bank of which the applicant or insured institution is a member. The report of such examination may be reviewed by the trustees and an additional examination at the expense of the insurance corporation may be ordered if the trustees find the information or the examination unsatisfactory or inadequate.

There is a complete power on the part of the trustees to examine, but what we merely do is to say it is the policy to use the Federal home-loan banks if they can.

Senator GOLDSBOROUGH. If not, the trustees can make an independent examination?

Mr. BODFISH. They can go right ahead if they want to, but it suggests that they work the other way. Now, we come to the most important amendment that we want to propose, on page 26, line 3, through line 18.

Senator GOLDSBOROUGH. Does that cover the whole of section (b) (1)?

Mr. BODFISH. Yes, sir; I will read the language so that we will get it clearly before us [reading]:

The Insurance Corporation shall fix an initial and annual premium for applicants for insurance of their accounts as follows:

1. All eligible institutions having a surplus of more than 5 percent shall pay an annual insurance premium of one fifth of 1 percent of their total insured accounts, plus other creditor obligations for the first 4 years of their existence, and loan associations, excepting all converted or companion institutions, shall pay an insurance premium of one fifth of 1 percent of their total insured accounts, plus other creditor obligations for the first 4 years of their existence, and thereafter shall be classified as are other eligible member institutions.

In other words, the bill is considering 300 or 400 or 500 small cooperative building and loan associations, and they cannot build up their reserves immediately, and this will let them have as much——

Senator GORE. I do not want to divert you, but aren't we getting too many savings banks and post offices in on that?

Mr. BODFISH. That was a very wise thing in its original conception, Senator, for the foreign born and persons who did not speak English and who had been dealing with government-sponsored banks in Europe. I am a hearty believer in the postal savings, but when the depression came along it became a banking system, to the detriment of privately conducted institutions.

In answer to your question as to whether there are not enough savings banks, I believe if we had had the New England mutual savings bank idea spread over the country we would have had a lot fewer bank failures and a lot less credit contraction. They have a substantial part of their savings in what are essentially investment institutions.

Senator GOLDSBOROUGH. A number of cities have had serious difficulty, and have stopped it, apparently.

Mr. BODFISH. In my State—Illinois—we do not have a single mutual savings bank in the State, and we have had a large number of bank failures. We are prevented from having that sort of a law other than through building and loan associations. I think it would have been sounder public policy throughout the Middle West if we had had mutual savings banks.

Senator GORE. You think the people in the Middle West would not voluntarily follow that?

Mr. BODFISH. I think so. I think you are going to have a very striking development of the mutual savings bank and old-fashioned building and loan associations throughout this cuntry in the next few years, if they are not too discouraged by Government competition. I think that system has demonstrated its soundness all through the depression, and it answers the question by the financial stability of New England largely, in my judgment.

Now, going on with this amendment [reading]:

2. All other institutions having a surplus of more than 2 percent and not more than 5 percent shall pay an annual insurance premium of two fifths of 1 percent of the total of their insured accounts, plus any other creditor obligations.

3. All other institutions having a surplus of not more than 2 percent shall pay an annual insurance premium of three fifths of 1 percent of the total of their insured accounts, plus any other creditor obligations.

That means that an institution that has provided the least of its own insurance has got to make the biggest contribution to the insurance fund, the same as an old man has to pay a higher premium than a young man.

I have here a statement which I would like to insert in the record. It is a careful study——

Senator GOLDSBOROUGH. As I understand you, you favor title I?

Mr. BODFISH. Except section 5.

Senator GOLDSBOROUGH. And you oppose title II in its entirety?

Mr. BODFISH. Yes.

Senator GOLDSBOROUGH. And title III you favor with the amendments which you have submitted?

Mr. BODFISH. Yes, sir. I might say, Senator, that we had about 60 of our best building and loan minds together about 6 weeks ago, and this is their judgment after a study of the question. This memorandum I would like to insert in the record. It is a study of all the losses in building and loan associations for some 15 years; also a study of what this schedule of annual premiums will yield in relation to the losses; and it clearly demonstrates this insurance schedule applied to 80 percent of the best building and loan associations. Of course, the loss figures are based on all of them, including some second-mortgage operations in Philadelphia, and everything else. It conclusively proves that this formula will twice over pay any losses we have experienced at any time in the past. Therefore we think that this schedule is adequate. This document is merely a study of the matter based on statistics, for the proof of that contention and for the information of the committee.

The CHAIRMAN. It may be inserted in the record.

(The document referred to and submitted by the witness is here printed in full as follows:)

RE ASSESSMENTS FOR BUILDING AND LOAN INSURANCE PROGRAM

Memorandum for Hon. John H. Fahey

In this memorandum the adequacy of the premium income is based on two different assumptions: First, that the assets of associations whose accounts are to be insured total $2,400,000,000, or approximately those in the Federal home-loan bank system; and, second, that associations having total assets of $6,000,000,000 are insured based on the idea that building and loan assets are now about $7,500,000,000, and that 80 percent of these are eligible for membership in the home-loan bank system.

The financial reports of several hundred associations were studied as a basis for estimating the proportion of assets in the savings and loan business which are in associations having a surplus of "more than 5 percent", "more than 2 percent and not more than 5 percent", or "not more than 2 percent." These associations were chosen at random in 10 different States. Approximately 20 percent of the assets were in associations having "more than 5 percent" surplus; approximately 30 percent were in associations of the 2-to-5 percent surplus class, and approximately 50 percent in the "not more than 2 percent" class.

ADEQUACY OF INCOME WITH $2,400,000,000 ASSETS INSURED

This survey indicates that, of the $2,400,000,000 building and loan assets now in the Federal home-loan bank system, $480,000,000 will pay a premium of one fifth of 1 percent per year; $720,000,000 a premium of two fifths of 1 percent per year, and $1,200,000,000 a premium of three fifths of 1 percent per year.

The premium income would be as follows:

Class 1, paying one fifth of 1 percent	$960,000
Class 2, paying two fifths of 1 percent	2,880,000
Class 3, paying three fifths of 1 percent	7,200,000
Total income	11,040,000

Based on losses in failed building and loan associations, this premium income would be more than sufficient to meet all expected losses and would permit of a transfer of a substantial amount to a loss reserve.

The following table gives a summary of building and loan association failures and losses in the 13-year period, 1920–1932. The 1932 figures are the latest so far available.

Summary of building and loan association failures and estimated losses, 1920–32

	Total number of associations	Total resources	Number failed	Estimated loss	Percent of loss to total resources
1920	8,633	$2,519,914,971	2	$506	0.00002
1921	9,255	2,890,764,621	6	91,547	.0032
1922	10,009	3,342,530,953	4	158,674	.0047
1923	10,744	3,942,939,880	9	132,612	.0034
1924	11,844	4,765,937,197	18	398,245	.0084
1925	12,403	5,509,176,154	26	500,000	.0090
1926	12,626	6,334,103,807	12	380,725	.0060
1927	12,804	7,178,562,451	21	1,013,000	.0141
1928	12,666	8,016,034,327	23	568,000	.0071
1929	12,343	8,695,154,220	159	2,312,626	.0266
1930	11,777	8,828,611,925	190	24,676,059	.2795
1931	11,442	8,417,375,605	126	22,327,842	.2653
1932	10,997	7,750,491,084	122	20,337,255	.2624

The largest percent of losses to total resources was in 1930, when 0.2795 of 1 percent of the assets of building and loan associations were lost. The percentage of loss in both 1931 and 1932 was lower.

Taking the year in which the loss ratio was the largest, this would indicate that of $2,400,000,000 of assets, the expected loss would be $6,708,000, leaving a margin of $4,332,000 of premium income over expected losses. This margin is more than 60 percent of the loss which might reasonably be anticipated.

ADEQUACY OF INCOME WITH $6,000,000,000 INSURED

Using the same basic data, the expected income if assets of insured associations were $6,000,000,000 would be:

Class 1, paying one fifth of 1 percent	$2,400,000
Class 2, paying two fifths of 1 percent	7,200,000
Class 3, paying three fifths of 1 percent	18,000,000
Total	27,600,000

Again using the worst year so far experienced as a criterion of what might be expected, the losses in associations of $6,000,000,000 of assets would be $16,770,000.

In this case the margin of income over losses would be $10,830,000 per year.

SUMMARY

These calculations are probably conservative from the point of view of the solvency of the insurance fund. The year with the greatest percentage loss is used as a basis for the calculation. When the losses in that year are compared with those over the rest of the 13-year period, it is reasonable to expect that over a period of years the average annual loss would be substantially less than is here calculated.

Again, the percentage of loss in 1930 included the experience of all associations, good, bad, and indifferent. It is considered that the poor 20 percent of

building and loan associations, where losses are most likely to occur, will not be eligible to join the Federal home-loan bank system, so that the experience of the other 80 percent who are or might become members should be substantially better than the entire group. It may reasonably be expected that this factor will add another very significant element of safety.

It therefore seems reasonably certain that the premium schedule in the proposed bill for the creation of a Federal Savings & Loan Insurance Corporation will yield a premium income more than sufficient to pay probable losses and, in fact, large enough to make substantial additions each year to the reserves of the corporation.

It should be noted that, since the greater proportion of building and loan assets will be in associations paying the highest premium rate, the average premium rate will be more than two fifths of 1 percent per year. On the basis of the figures gathered as indicated above, it would be 0.46 percent. If an assessment of 0.25 percent has been deemed by Congress to be sufficient to insure liquidity and losses in banks, 0.46 of 1 percent should be ample to insure only solvency of thrift institutions.

In any insurance plan, as has been pointed out by the Commission on Banking Law and Practice of the Association of Reserve City Bankers, the payment should be "determined according to the quality of the risks insured." Again quoting from the commission's study, "the essence of insurance is the payment by the insured of premiums in actuarial relation to the risk involved." As that study pointed out, under a flat premium plan "there is no penalty for bad management." The graduated premium plan in the proposed bill does place a penalty on bad management, as such management can be judged by failure to create an adequate surplus by chrging a higher premium rate.

This study would seem to indicate that, so far as the facts can be ascertained, the premium plan and rate is based on actuarial practice since the premium is more than sufficient to meet losses experienced over a considerable number of years and bears a direct relationship to the risk involved in insuring institutions of varying qualities.

Senator GORE. How many building and loan concerns were there in the country in 1929? I have forgotten.

Mr. BODFISH. About 11,500.

Senator GORE. I thought it was about 12,000.

The CHAIRMAN. What has been the amount of the demand for withdrawals and for deposits?

Mr. BODFISH. You mean, Senator, the amount we have paid out to shareholders in past years?

The CHAIRMAN. Yes.

Mr. BODFISH. These are just rough estimates, because the only figures available are in the annual reports of the State supervising authorities; but as I recall, last year, 1933, our associations paid out to thrifty savers that had accumulated a fund more than ¾ billion dollars.

Senator GORE. During what time?

Mr. BODFISH. Last year.

Senator GORE. Could you give it for each year since 1929?

Mr. BODFISH. Well, it has wavered between a billion and a billion and a quarter.

The CHAIRMAN. What was the amount of the unpaid withdrawals?

Mr. BODFISH. I would say that the unpaid withdrawals would be today less than 7 percent of our total assets, taking the country as a whole. In other words, that would be five hundred million dollars. A lot of that is normal, Senator. In many localities they do not pretend to pay the money right out on the nose. If a man wants to withdraw his funds that he has saved, he puts a notice on file, and when the money is available we pay him. It is for that reason that we have been able to keep all of our capital loaned out. Today

over 90 percent of our capital is either in mortgage loans or in foreclosed real estate.

Senator GOLDSBOROUGH. Senator Gore asked you how many building and loan associations there were in the United States, and you answered 11,500.

Mr. BODFISH. Senator Gore asked as to 1929. There are 10,997 now.

Senator GOLDSBOROUGH. In the State of Maryland, including the city of Baltimore, we have about 1,000, and it is my understanding that of that thousand perhaps not more than half a dozen have had any serious difficulty.

Mr. BODFISH. Senator Goldsborough, the only difficulty has taken place in the city of Philadelphia, where real-estate promoters and lawyers have been loaning on second mortgages. But they have departed, and the fundamental building and loan first-mortgage investments remain.

The CHAIRMAN. What causes the difficulty of the building and loan associations?

Mr. BODFISH. Largely two things, Senator. No. 1, fear because we have had 10 times as many withdrawals in the area where there was a substantial number of bank failures. The other factor is unemployment. This fund of 8 billion dollars that has been accumulated largely from the working classes and people in very humble walks of life—they are the people, of course, who first felt the pinch of the depression. They needed their funds; and I think the withdrawals from the building associations have been one of the great factors in tiding that kind of a family through the depression.

Senator GORE. What fund is that?

Mr. BODFISH. The total assets of the 11,000 building and loan associations in the country today.

Senator GORE. How much has that gone down since the depression began?

Mr. BODFISH. It has decreased almost a billion dollars. We have cards in some of the associations which are signed where a person will come in and get $5 a month for a period of 3 or 4 years.

While I am very sympathetic with unemployment insurance and things of that kind, I think one of the things that is very important is that we teach some of the old fundamental principles of saving a little money in a safe, nonspeculative investment, and providing some of your own unemployment insurance.

Senator GORE. You do not think that unemployment insurance will militate against that spirit, do you?

Mr. BODFISH. Senator, I confess I do not know. I do know that the spirit of thrift and saving, and property ownership, which is merely another angle of it, is terribly important to this whole country, and it is at a low ebb at the present time. Real-estate taxes in my city are a disgrace and a discouragement to home ownership. There used to be a time when a man owned a home that it was an island of safety, absolutely. In other words, taxes were so low that if he got out of work for a year he could get along all right, and he really had an island of safety there. But real-estate taxes and one thing and another have broken that idea down somewhat.

Senator GOLDSBOROUGH. In other words, he had a roof over his head?

Mr. BODFISH. Yes.

The CHAIRMAN. Are the building and loan associations functioning now? Is confidence coming back to them? Are they making loans now?

Mr. BODFISH. I would say that confidence is returning and a number of them are making loans at present, but they have not anywhere near the whole volume of savings that they used to have which really supplied the loan funds. Where an institution is on notice, Senator Fletcher, a man is not going to walk in and deposit money or put money in on shares. Psychologically they will not do it when their neighbor knows they cannot get their money for 2 or 3 months. They say, "I am going to wait and see." When that association is meeting its withdrawals within 30 days and has money on hand, the flow of savings resumes.

The CHAIRMAN. Are the members slow about keeping up their dues?

Mr. BODFISH. Yes.

The CHAIRMAN. And meeting their installments or payments?

Mr. BODFISH. Yes. But, Senator, this should be kept in mind: Every building and loan mortgage in the country was on a long-term monthly repayment basis. In other words, it was built just as you designed the original Florida law. If I recall correctly, you are the author of that law in Florida. It was enacted with the objective of getting the home owner out of debt. The most unsound thing in our whole debt structure is that they do not have the objective of getting a man's home free and clear. The building and loan companies have adhered completely to that principle. It doesn't mean anything if you have added to the second mortgage and the building association and the tax collector. It only means something if some day you have an absolutely free and unencumbered home which is an island of safety for a person in a depression of this kind.

Our building and loan people have kept up their mortgage payments. They are better than other forms of mortgage loans, because they were adjusted to the monthly or weekly income of the borrower.

The CHAIRMAN. Is there any complaint about the interest? Do borrowers now feel that interest is too high in building and loan associations?

Mr. BODFISH. Senator Fletcher, I think the interest question is one that needs some very thoughtful consideration from Congress as well as from other public leaders of this country. I do not want to defend for a moment high exactions or usury, or anything of that kind; but interest rates must be high enough to encourage the accumulation of capital for whatever purpose it is needed. In our building and loan associations we have been unable to get people unless we paid them 4½ or 5 or 5½ percent. As a matter of fact, we have often talked of it as the workingman's bank that gave them a higher return than they could get anywhere, and in an investment which they could understand. I think that the concept—I say this as an economist, not as a business man—of putting political pressure on the interest rate by spreading the information up and down the land that the Government is going to loan on farm mortgages at 4 percent, and things of that kind, is not socially desirable in the long run.

Senator GORE. Double check!

Mr. BODFISH. I believe in usury legislation and I believe in better inspection of all financial institutions, but I think we have started on something that we have got to be awfully careful about, namely, by establishing low interest rates for direct lending operations with the idea of forcing private capital down below grade——

Senator GORE. Do you not think that when you make a rate of interest less than the market price of money, or what it ought to be, you invite more borrowers than you would otherwise have and lure people into debt?

Mr. BODFISH. That is possible, Senator, although I find that people's borrowing is not a function of the interest rate; it is a function of the general feelings of the times.

Senator GORE. That may be. But Senator Fletcher and I had something to do with establishing this farm land bank system, and one of our objectives was to reduce the rate of interest, and we did. That compelled private lenders to reduce the rate of interest to farmers; and in 10 years the farmers owed three times as much as they owed when we started that institution.

Mr. BODFISH. And today you have the whole farm-mortgage business of the country right square on your hands.

Senator GORE. Certainly. We were lending money more cheaply than the people that had money were willing to lend it.

Senator TOWNSEND. What is the eventual outcome?

Senator GORE. That the Government is going to finance everything and drive private financing out of the market, and sooner or later the Government will have all industries sitting in its lap; and I don't know but what some people desire to have that come about.

Mr. BODFISH. I hope not, Senator.

Senator WAGNER. I do not know enough about these things; that is my difficulty. But what would the farming communities of the country have done recently without the aid that we have given them, without sufficient income to pay the interest on their homes? They were beginning to lose them one right after another. Something had to be done for them. It is easy enough to talk in these terms, but we have got to deal with human beings in some way.

Senator GORE. That is true, Senator, and that is why the Government has to lend more and more.

Senator WAGNER. What could we have done?

Senator GORE. The Government is fixing it so that people cannot borrow money, because it is fixing it so that people cannot collect their debts; and if they cannot collect their debts, credit will not be extended.

The CHAIRMAN. The Farm Loan Act saved farmers $450,000,000 a year.

Senator GORE. Yes; it did, Senator; but how many did it get into debt? You will find at that low rate of interest that the aggregate interest paid by the farmers was a great deal more than that.

Mr. BODFISH. I think you would be intensely interested in a recent study that has been made, sponsored by Edward Filene and a number of others. There are some very shocking things in their report to those of us who have given study to the debt question. They came to the conclusion that the debt structure has not been one of the principal problems of the depression, and the relief measures in

many cases were inexpedient, for the reason that in attempting to help, for example, the person that was having his home taken away from him as a matter of foreclosure, they allowed four or five other fellows to ride in that did not deserve to be considered. In other words, we have not matured in our capacity to deal with that problem.

Senator GORE. The Government agents went to and fro in this country urging farmers to borrow money in order to reduce the overhead; and down in the community where I was raised they tell me that every farm in that vicinity except one has been taken over by the Government. They got the money to buy automobiles.

Mr. BODFISH. I do not think that a 30 or 40 years' mortgage indebtedness on rural property is a wise thing. I am not ready to go the whole jump in the urban credit picture. I think we had better establish a 10 or 15 year proposition at the most, and get them out of debt.

Senator WAGNER. With amortization?

Mr. BODFISH. Yes. Incidentally sometimes reference is made to the long-term loans made by the banking systems in Europe, from which we got a lot of the ideas that we put into the Home Loan Bank system. For instance, in Sweden they have stable property values and no real property taxes. I think that is a significant thing in thinking about this 80 percent proposal.

The CHAIRMAN. As I understand it, one of the objects of this bill is to induce private capital to come forward to supply loans and to get the Government out of it as far as possible. I do not think the Government ought to take over the lending business of the country at all.

Mr. BODFISH. Senator, I think this proposal in section 5 of title I and in title II is the fundamental beginning of the nationalization or socialization of the whole urban mortgage business in this country. I am glad to make that statement for the record, because if those phases of the bill go through it will be interesting to check up 5 or 10 years from now to see where we are going.

Senator TOWNSEND. Why do they have no real-estate taxes in Europe?

Mr. BODFISH. Recently I was talking to a chap from France who owns a fairly substantial home. He has not suffered from the depression particularly. He is an artist, as a matter of fact. I asked why, and he said, "I have my home." I interrogated him further and it developed that he has a 12-acre place some 30 miles from Paris and he has a very substantial home on it, and his annual taxes approximate $12 a year. In other words, he pays his taxes in the form of consumption taxes of one kind or another; and his home, in the words of Richard T. Ely who was my teacher in economics, was a "real island of safety" for him during the depression, because he could certainly get $12 to pay taxes on it.

There is one of the fundamental readjustments that is going to have to take place in our economics. The burden of municipal, State, and county taxation on real property is a question that just cannot be cast aside much longer. I think the thing to do is to put it over on consumption taxes and profit taxes.

Senator WAGNER. You anticipated what I was going to ask you. I know you have thought about it more than I have. I do not think

anybody would want to have municipal government reduced to the point where it does not give the people the services that they need, such as education and public-health service. But there ought to be a sort of an exploration of that field so as to relieve the real-estate taxpayer who really is contributing more than his share to the expense of the municipal governments today.

Mr. BODFISH. It is a very vital and important thing. I think one of the things that has made this country great has been our concept of education.

Senator GORE. Did it ever occur to you that they might have run that into the ground? Don't you think we ought to put little motors on the children to guide them so that they will not have any difficulties at all to encounter?

Mr. BODFISH. Well, I don't know, Senator. I am a great believer in the system of having everybody given an opportunity to have an education.

Senator GORE. Surely. Give every child a chance, but don't spoil them by not letting them ever encounter any difficulties.

Now, on this tax point: In Oklahoma there are 6,356 governmental agencies vested with the sovereign power to impose and collect taxes; and in the State of Oklahoma we collect and pay annually Federal, State, and local taxes in the sum of $226,000,000. That is $100 per capita. It is $500 per family. Two hundred and twenty-six millions in 1931. All the farm produce marketed in that States that year brought $66,000,000, and all the oil brought $110,000,000. Those are the chief resources on which we pay our taxes. All the proceeds of oil and farm produce brought $50,000,000 less than enough to pay taxes. The interest charge is 70 million a year, and the insurance premiums are 60 millions a year.

What are you going to do about that?

Mr. BODFISH. Senator, in my county, in Chicago, we have 250 individual tax jurisdictions.

Senator GORE. I think there are 10,000 in Senator Wagner's city.

Mr. BODFISH. I think the Government has got to give some real attention to the housing problem; but I do not think the solution lies merely in demonstrating the fact that the United States Government can raise capital at 3 percent when private industry cannot raise it for less than 4 or 4½ percent for a long term. I would have no objections to see our country going the same road that England has gone in regard to the destruction of such properties as are declared uninhabitable by the ministry of health. I think there is a whole avenue to be developed there. I do not think that the function of government in solving the housing problem is essentially one of credit.

Senator GORE. North Dakota launched a scheme of that kind, did it not?

Mr. BODFISH. Yes. The bank went busted, sky high.

Senator GORE. It was an utter failure, was it not?

Mr. BODFISH. Yes.

Senator GORE. And did not California also undertake it?

Mr. BODFISH. California financed homes for veterans, but they have not been able to collect yet.

Senator GORE. You lose certain elements of character when the Government gets to dealing with an individual. The relationship

between a sovereign and a citizen, the relationship of debtor and creditor is just impossible.

Mr. BODFISH. I have enjoyed this immensely, Mr. Chairman, and you gentlemen have been very patient.

On page 29, starting with line 6—the balance of the page starting with line 6—the bill turns over largely the control or management of an insured institution to the trustees of the Corporation. There are no powers over banks in the Federal Deposit Insurance Corporation that even approach the things suggested in this section. It provides that no insured institution shall make loans beyond 50 miles from its principal office; issue securities after becoming an insured institution, the form of which has not been approved by the Insurance Corporation, and no form of security or contract shall be approved which guarantees a definite return or a definite maturity; carry on any sales plan or practices or advertise in violation of regulations made by the Insurance Corporation. And then they go on——

Senator GORE. Don't you think that is pretty conservative? [Laughter.]

Mr. BODFISH. Then they go on on top of that and set up the insurance fund which will more than pay any losses that have been experienced. It is provided that the individual association must, within 10 years, under the regulations of the Corporation, provide for building adequate reserves, together with the right of the Corporation to prevent the association from paying any dividends to savings investors until they accumulate an additional 5-percent reserve in the existing institution.

That, plus the insurance premium, is just too much for the associations. The risk does not justify it. So we want the balance of the section stricken out and language inserted in lieu of it.

But I would call your attention to the last three lines——

Senator GORE. Doctor, do you know of any sort of iodine with which the Government can paint the patient and stop this disease from creeping to the heart?

Mr. BODFISH. No; I do not, Senator. If the people want their Government to do certain things, the Government will do them. If the majority of the people think that is the best way, I want to live under the kind of government that will do it.

Senator GORE. Don't you think we ought to be warned by some of the red lights of history? That is what ruined Rome, that is what ruined Athens, the granting of favor after favor. I was reading only the other day that Pericles started to feed the people out of the public treasury, and it lasted a hundred years. Plato said that Pericles had converted the people of Athens into an idle, avaricious, self-respectless, gossip mongering set of paupers and beggars. The Roman Emperor said that the only way to keep the people satisfied was to keep their bellies full.

Mr. BODFISH. Senator, I think you and I are pretty much of one mind, only we cannot find the plank to walk on.

Note that the last three lines provide that no institution shall—

violate any other reasonable regulation made by the Insurance Corporation for the sound and economic conduct of the business of such insured institution——

The CHAIRMAN. Where are you reading from?

Mr. BODFISH. The last three lines on page 29.

The conduct of a business institution is no business of the board down here in Washington, nor is their advertising, unless it jeopardizes the insurance fund in some way. We propose the following language:

No insured institution shall: (1) Issue securities after becoming an insured institution, the form of which has not been approved by the Insurance Corporation; or, (2) violate such necessary and reasonable regulations made by the trustees for the protection of the Insurance Corporation.

Of course it should have power to protect every corporation and it should see that some institution does not offer demand deposits, offering 7 percent interest. But beyond that they need no additional authority.

Senator GORE. I have heard it suggested, Doctor, that building and loan associations are receiving what are practically demand deposits, and that it what caused the crisis.

Mr. BODFISH. Senator, I can discuss that at some length. The contract was not a demand contract. I have had some part in preparing the Federal savings and loan regulations you have down here now, and I think if I can discuss that proposal with you sometime you will agree that we have eliminated that evil.

I would like to call attention to section 312, which is somewhat of an innovation in the writing of penal statutes. It makes the penalty clause of another law effective. It is an innovation, I think.

Gentlemen, for the first time the Federal Government has embarked upon a program of dealing with this whole home-mortgage problem. It has been a chaotic thing around the country. We have not had any mortgage banking system. Our commercial credit with regard to real estate was sadly disorganized, and we all know the whole situation. The home-loan banking system was an attempt to start to begin to develop a sound home-financing mortgage banking system for the country; and we would like to suggest that an advisory board similar to the Federal advisory board that functioned in the first years, and is still in existence, in connection with the Federal Reserve System, in order that the commissions and officials in Washington that have the responsibility of dealing with these matters may have the further responsibility of periodically sitting down and having discussions with and hearing recommendations from some of the leaders in thrift and home-financing activities around the country.

Senator GORE. Do you think the advisory board of the Federal Reserve System has had any particular weight with the Board?

Mr. BODFISH. I think in the first 10 years in the development of the Federal Reserve System it had a very substantial influence and was very helpful.

Senator GORE. But that was in the good old days when America was free.

Mr. BODFISH. Yes. That was before we started dumping Government bonds into the Federal Reserve, and it was then the real liquid bank and reserve system that it was intended to be. So we have an amendment providing for a Federal Savings and Loan Advisory Council, which we would like to see function for a few years in the development of this legislation, and that amendment is to be inserted

on page 35, after line 14, as a new section, section 314. It provides as follows [reading]:

SECTION 314. There is hereby created a Federal Savings and Loan Advisory Council, which shall consist of as many members as there are Federal home-loan bank districts. Each Federal home-loan bank, by its board of directors, shall annually elect a resident of such bank district interested in thrift and the financing of homes as a member of said council, who shall receive, subject to the approval of the board, such compensation and allowances as may be fixed and paid by the Federal home-loan bank of the district from which he is elected. The Federal Savings and Loan Advisory Council shall meet at Washington, D.C., at least four times a year, and oftener if requested by the Board or by the trustees. Said council may meet at other times and other places as it may deem necessary and may select its own chairman and vice chairman and secretary and adopt its own method of procedure. The directors of the Federal home-loan banks shall elect members of the council annually for a 1-year term and shall fill any vacancies that may occur. The Federal Savings and Loan Advisory Council shall have power:

1. To confer with the Board or the trustees on general business conditions or special conditions affecting the Federal home-loan bank system or its members, or the insurance corporation.

2. To make representations concerning matters within the jurisdiction of the Board or the trustees.

3. To request information and make recommendations in reference to the Federal home-loan bank system or its members of the insurance corporation.

Senator GORE. You do not have any idea that you could ever stop it if you started it, do you?

Mr. BODFISH. I think if the Government is going to participate in the management of reserve institutions, there ought to be some way in which people that are in the business around the country, some of the representative leaders, can come here every 3 or 4 months and at least express their views and judgments and have the right to do so. I think that is an important principle when the Government is taking substantial control of a number of institutions.

Senator GORE. Does not that carry with it an implication that experience ought to be consulted?

Mr. BODFISH. Yes; I think so.

Senator GORE. Does not that, then, discredit experiments and experimentation?

Mr. BODFISH. Well, I am not hostile to experimentation in lines where we do not have experience. Maybe this is a way to get some of our experience into Washington to test that.

The only other proposal that I want to make is with regard to page 41, section 405, which proposes to take off every restriction on the part of national banks as to their making mortgage loans——

Senator GORE. Is that your proposal?

Mr. BODFISH. No; that is the proposal in this bill, and I think it is unsound banking to establish a public policy of that kind.

Senator GORE. Don't you think national banks should be deprived of the privilege of loaning on real estate at all?

Mr. BODFISH. I think there is absolutely no question of it. If you had adopted the McFadden Banking Act, we would have had a sounder act. One of the fundamentals is that the building and loan associations ought to stick to the building and loan business; the commercial banks ought to stick to the commercial banking business, and the investment banking business ought to be separated from both.

Senator GORE. I do not see how they can be liquid and make long term real-estate loans.

Mr. BODFISH. Senator Fletcher, those are the amendments that we have to offer. There are several gentlemen here whom I would like to have the committee hear for 2 or 3 minutes at a later time. Lieutenant Governor Thompson, of Kansas, is here. He is head of the largest institution of that State. Mr. Moore, one of the leading citizens of Atlantic City, is here, and others. If you could tomorrow morning give those gentlemen 2 or 3 minutes, we would appreciate it.

Senator GORE. What do you suggest as to the national banks?

Mr. BODFISH. The bill provides [reading]:

SEC. 405. Section 24 of the Federal Reserve Act, as amended, is amended by adding to the end of the third sentence thereof the following:

"*Provided, however,* That in case of loans secured by real estate which are insured under the provisions of the Federal Mutual Mortgage Insurance Act, such restrictions as to the amount of the loan in relation to the actual value of the real estate and as to the five-year limit on the terms of such loans shall not apply."

Senator GORE. That is why I look with such abhorrence on all this legislation.

Senator TOWNSEND. Have you given the reporter a copy of your amendments?

Mr. BODFISH. Yes, sir.

The CHAIRMAN. They will all appear in the record.

Mr. BODFISH. I have a summary of Mr. Friedlander's testimony which I would like to have inserted in the record.

The CHAIRMAN. That may be done.

(The document referred to and submitted by the witness is here printed in full, as follows:)

MAY 22, 1934.

Statement on behalf: United States Building and Loan League, 104 South Michigan Avenue, Chicago, Ill. (National organization representing building and loan associations, savings and loan associations, homestead associations, cooperative banks, and Federal savings and loan associations. Membership, 3,700 associations, and representing over 70 percent of the assets in community thrift and home-financing institutions.)

To: Senate Banking and Currency Committee.
Re National Housing Act, S. 3603.

The building and loan associations concur with the President of the United States on the importance of immediate cooperation between the Federal Government and private capital and industry. Employment in the building trades and other capital-goods industries is essential to continued national recovery. Building and loan associations support the proposed National Housing Act insofar as it will stimulate the flow of private capital and facilitate reemployment without injury to the thousands of sound community thrift and home-financing institutions.

The program for alterations, repairs, and improvements of real property has our unqualified support, and our 11,000 building and loan associations in the country will cooperate. We emphatically urge that the Federal Government take the lead at this time in directing the attention of the public to the importance of home maintenance, home improvement, and home buying. We believe that the proposal embodied in title I of the National Housing Act (excepting sec. 5) will lead to substantial expenditures and employment and possibly give work to several hundred thousand persons if vigorously carried out. It is our belief that the Government is justified in incurring the potential losses involved in the proposed plan for financing these repairs through

the cooperation of commercial banks, finance companies, and other financial institutions.

Section 5 of title I does not disclose the plans or program for reestablishing the guaranteed mortgage system. It is broad, enabling legislation, and if carried out along lines discussed by its proponents, will curtail the activities of thousands of community home-financing institutions and may ultimately place the Federal Government, through Government bonds, behind billions of dollars' worth of mortgage securities. In this proposal the Government and the taxpayer will acquire real estate upon default by borrowers. If this plan had been in effect and widely used during the present depression, it would have undoubtedly cost the Government hundreds of millions, if not several billions, of dollars. This statement is predicated upon the losses incurred under the same system by private capital undertaking the guaranteeing of mortgages on a much more conservative basis than that proposed in this legislation.

The legislation, if enacted, could not become operative in time to help the immediate situation, and it is our judgment that it would drive much more long-term private capital from the field of home financing than it would be able to bring into activity in several years to come.

Inasmuch as immediate results are desired in the employment of labor in the building trades, we propose an increase in the bonding privileges of the Home Owners' Loan Corporation of $500,000,000, and that such funds be earmarked and advanced through existing institutions, namely, building and loan associations, mutual savings banks, and insurance companies for loans leading directly and immediately to the employment of labor. The machinery exists to accomplish the purposes the President has set forth, and we propose this program as more immediate, more effective, and more in line with the preservation and upbuilding of community thrift and home-financing institutions. Such a program will entail no loss to the Federal Government and will have the complete cooperation of building and loan associations.

Building and loan associations in their history have financed the building or ownership of over 8,000,000 homes. In fact, the capital for home repair, home modernization, home building, and home buying in this country has come almost exclusively from the savings of the working classes invested in building and loan associations, mutual saving banks, and in insurance policies. Building and loan associations are located in every community in the country and today have nearly 90 percent of their assets in home-mortgage loans. They would resume normal lending activities if an increased flow of savings were available.

It is our belief that the insurance of these institutions, along lines provided for bank depositors, will make substantial funds available for home mortgages. As was ably pointed out by the President, "insurance of this type is necessary to arrest any further drain on these institutions and to put them in position to resume their normal useful function."

The United States Building and Loan League has approved a plan for the insurance of investments in building and loan associations and the benefiting associations will pay sufficient annual premiums to cover all losses. The only outlay of the Government is $100,000,000 for working capital, said capital to be kept intact and the Government is to receive 3 percent interest thereon.

Title IV presents liberalizing amendments to the Federal Home Loan Bank Act, permitting it to function more adequately as a banking and reserve system for thrift and home-financing institutions. These amendments are sound and desirable and are based upon 1 year's experience in operating the reserve system, which now has more outstanding advances than the Federal Reserve System has discounts.

We confidently believe that when the insurance of building and loan shares becomes effective, as provided in this bill, and the liberalizing amendments to the Federal Home Loan Bank Act are adopted, and the repair and modernization program is under way, that there will be no necessity for the authorization of the creation of any new type of lending institution, as is provided in another title of this bill. The title proposing the creation of national mortgage associations (title II) provides for setting up of the type of lending institutions which has in times past uniformly proven to be both unwise and unsuccessful. Any proposals for reform or innovations in the mortgage banking activities of the country should come only after a reflective study of the problem and after the home-loan bank system, the Federal savings and loan associations, the alteration, repair, and improvement program, as well as the insurance of build-

ing and loan investments have had an opportunity to demonstrate their usefulness.

Building and loan associations today have the savings of over 10,000,000 persons and home-mortgage loans to over 2,000,000 persons. It is hoped that the Federal Government will continue its encouragement and sponsorship of these great cooperative thrift and home-financing instrumentalities, who have for 103 years done the bulk of the small-home financing in the United States.

The CHAIRMAN. We will be unable to go on this afternoon. We will resume tomorrow morning at 10 o'clock and will endeavor to dispose of the bill.

(Whereupon, at 1:15 p.m., the committee adjourned until tomorrow, Wednesday, May 23, 1934, at 10 a.m.)

NATIONAL HOUSING ACT

WEDNESDAY, MAY 23, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on yesterday, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senator Fletcher (chairman), Barkley, Bulkley, Bankhead, Townsend, and Couzens.

The CHAIRMAN. The committee will come to order, please. Mr. Schmidt, if you will come forward to the table and take a seat opposite the committee reporter.

Mr. SCHMIDT. Thank you.

The CHAIRMAN. Please state your name, place of residence, and occupation.

STATEMENT OF WALTER S. SCHMIDT, CHAIRMAN OF THE MORTGAGE FINANCE COMMITTEE OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS, CINCINNATI, OHIO

The CHAIRMAN. Mr. Schmidt, you have examined the bill we are now considering (S. 3603), have you?

Mr. SCHMIDT. Mr. Chairman, I have read the bill very carefully. Our organization, the National Association of Real Estate Boards, is in full sympathy with the objects sought to be served by this bill. But we feel that in order to make it more effective in accomplishing the objects covered in the bill, and to provide the certain and immediate assurance of bringing back employment in the construction industry, which industry accounts probably for 75 percent of our unemployment today, there should be an additional title to the bill. That additional title we wish to submit to you for insertion, and we will say that it will not bring about any disturbance of any of the other titles or provisions contained in the bill.

This additional title provides for the setting up of a mortgage discount corporation, with $200,000,000 capital, the duty of which would be to purchase through and from existing lending agencies, that are approved by the corporation, mortgages on new construction commencing with the date of the enactment of the bill with a definite exclusion of owner-occupied homes.

We feel that this provision would assure the immediate commitment of mortgage-lending agencies on needed new construction that is economically sound.

In our judgment, the trouble with our present situation is the nonliquidity of the mortgage; that it has no place of sale, and that once in the possession of the original taker of the mortgage it must remain in his possession until the mortgage is paid.

Now, with the present condition of things financial institutions hesitate to commit themselves to the proposition that they will accept new mortgages. They may have funds in hand, but the necessity of maintaining a liquid position on their part has resulted in a condition that mortgage money in the most of the centers of our country has completely disappeared, except for mortgages on residences that represent some 40 percent of value, which is the type of mortgage that is not required in the most of our communities. Those who handle mortgages based on 40 percent of the value of the property are of the more conservatice type, and they do not seek as much money.

The CHAIRMAN. As to this new construction that you contemplate, does that have reference to homes or to business houses?

Mr. SCHMIDT. To any type of construction.

The CHAIRMAN. To hotels, apartment houses, and business houses?

Mr. SCHMIDT. Only if they are economically sound. We have guarded that provision very carefully in the memorandum of amendment which I would request be inserted in the record.

The CHAIRMAN. Very well. That may be made a part of the record at this point.

(The amendment to the National Housing Act, submitted by the National Association of Real Estate Boards, is here made a part of the record, as follows:)

AMENDMENT TO HOUSING ACT SUBMITTED BY NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

TITLE II. FEDERAL MORTGAGE DISCOUNT CORPORATION

SEC. 201. There is hereby created a body corporate to be known as the "Federal Mortgage Discount Corporation", which shall be an instrumentality of the United States, having a capital stock of $200,000,000 subscribed for by the Secretary of the Treasury of the United States, with the same directors, with the same general powers, and created under the same general conditions as provided for the Home Credit Insurance Corporation all as set forth in title I, section 2 of this Act.

SEC. 202. The Corporation is authorized and empowered to purchase and commit to purchase from banks, trust companies, mortgage companies, insurance companies, building and loan associations or other like agencies engaging in the business of making first mortgages on real estate, and approved as eligible by the board of directors, and without recourse upon the seller, first-mortgages or equivalent liens on improved urban real estate other than owner-occupied homes, but with such minimum and maximum amounts as may be fixed by the board of directors and subject to these conditions:

First. The building must have been constructed subsequent to the enactment of this bill.

Second. The mortgage must—

(a) Be not more than 18 years in life.

(b) Be amoritized at a rate of not less than 2 per centum per annum.

(c) Meet the requirements of regulations established by the board of directors.

(d) Not exceed 80 per centum of the appraised value of the property, if the purchase or commitment to purchase is made prior to July 1, 1937, and thereafter not exceed 60 per centum of the appraised value of the property.

(e) Be upon property adjudged by the Corporation a needed new improvement and economically sound.

Third. Where application is made to the Corporation to commit that it will purchase a mortgage where an impovement is about to be constructed, plans and specifications must be furnished before construction is commenced; the Corporation may commit that it will purchase the mortgage at any time within eighteen months after the date of commitment, provided the building has been completed in substantial accordance with plans and specifications submitted, or in an enlarged and bettered manner, and is a sound building evidencing good workmanship; and upon a finding that the appraised value of the property has not exceeded the fair worth of the land, plus the cost of the building, which cost may include a fair allowance for taxes paid during construction and interest on moneys advanced.

Fourth. (a) The Corporation shall refuse to discount mortgages the rate of interest upon which exceeds 6 per centum per annum, or upon which the total cost for placement to the original borrower for all charges, including legal fees, title search, and other collateral expenses exceeds 5 per centum of the face of the mortgage. It shall be the obligation of the borrower to present satisfactory evidence to the Corporation that there have been no commissions, bonuses, discounts, premiums, or other charges made which, after proper allowance for credits of like nature, have raised the cost to the borrower for interest or fee for placement above the amounts set forth herein.

(b) Before discounting any mortgage, the Corporation shall require the seller to furnish satisfactory evidence of the title to, and of the fair worth of, the property given to secure the mortgage. An independent appraisement of the value of the property by actual view, shall be made by the Corporation before a mortgage is discounted.

(c) The Corporation may arrange for the servicing of mortgages discounted by it or transferred to it through appropriate agencies designated by it, preferably the agency from which the mortgage was purchased, at fees to be established by it from time to time. Such fees shall not exceed one half per centum per annum of the unpaid principal of the mortgage serviced.

Fifth. A discount of not more than 2 per centum from the face of the mortgage purchased may be charged the seller.

SEC. 203. In order to make available to the Corporation adequate resources for the discounting of mortgages, the Corporation is authorized and empowered, with the approval of the Secretary of the Treasury, to issue and have outstanding its notes, debentures, bonds, or other obligations, in an amount not in excess of either (a) fifteen times its authorized capital plus accrued surpluses, less adequate reserves for losses, or (b) the principal sums due it on mortgages owned by it (less 5 per centum thereof) plus the amount of cash and its equivalent and bonds or obligations of the United States which it holds; such obligations to have such maturities, bear such rates of interest, and contain such other terms and conditions as the Secretary of the Treasury shall approve. Such obligations shall be fully and unconditionally guaranteed both as to principal and interest by the United States and shall be exempt, both as to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States or by any State, or by any political subdivision of either. The Secretary of the Treasury is authorized to purchase such obligations and for that purpose is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include any purchases of the Corporation's obligations hereunder.

SEC. 204. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties, as depositary of public money and financial agent of the Government, as may be required of it.

SEC. 205. The earnings of the Corporation, after setting aside as a reserve against possible losses such annual sums as good practice dictates, shall be paid into the Treasury of the United States until the capital advances made by the United State have been returned, and thereafter used for corporate purposes.

SEC. 206. The provisions of sections 9 and 10, title I of this bill insofar as applicable and with the substitution of the words "Federal Mortgage Discount Corporation" for the words "Home Credit Insurance Corporation"

wherever same occur, are extended to apply to contracts or agreements of Federal Mortgage Discount Corporation as created under this title.

SEC. 207. The Federal Mortgage Discount Corporation annually shall make a report of its operations to Congress as soon as practicable after the 1st day of January in each year.

SEC. 208. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

NOTE.—Present title II to become title III; present title III to become title IV; section numbers to be altered accordingly.

The CHAIRMAN. You may proceed, Mr. Schmidt.

Mr. SCHMIDT. We have provided in the proposed amendment that the directors of the Corporation shall be the same directors as those set up in title I of the bill for rehabilitation.

On that point, Mr. Chairman, it is our judgment that a great deal more is to be expected from new construction than can be expected from rehabilitation. We are in full accord, you understand, with the provisions of the bill for rehabilitation financing, as it is set forth. But we feel that we can say with assurance that the repairing of existing properties will not equal, even in small measure I might say, the amount of money that could be expended for new construction in our country.

During the past year vacancies have been decreased by some 25 percent according to surveys that we have from the different cities of the country. And while there are many communities in which new construction is not needed, yet we do find that there is needed at this moment now construction in various fields. That is especially true, of course, of residential construction, where the vacancy is approximately 3 or 4 percent. I would say that it ranged from 3 to 6 percent in the different cities of the country, the most of the vacancies being made up of dwellings that are hardly fit for habitation, and vacancies resulting from the doubling up of families which under any renewal of decency in living will unscramble themselves.

We feel that the improvement already made in conditions means that the unscrambling process is coming, in fact that it is here now. We feel, therefore, that there will be great need for new construction.

We do not feel, as many do, that we have had a great overproduction of real-estate facilities, except in some few lines. And we further feel that with any revival of business such overproduction as does exist will very quickly be absorbed. There is some overproduction in certain sections of the country, but generally speaking, just as in other fields, we think that overproduction is a bugaboo that is overestimated.

We feel that there is need for new construction, and that that need is about equal outside of the residential field. And we feel that if the design of this bill is to revivify the construction industry, provision must be made whereby these lending agencies which desire to lend on mortgages but are not doing so because they fear to tie their money up, can have a commitment that in the case of such mortgages they can be disposed of to a Federal agency if the lending agency so desires.

That I think explains our proposal in a very brief manner. We have tride to follow the most conservative policy in setting forth the type of mortgage that could be discounted with this agency. We have made the percentage of mortgage discountable the same percentage as is provided in the present bill, namely 80 percent, for a period up to January 1, 1937, but thereafter limiting the discountable mortgage to 60 percent of value.

The CHAIRMAN. What part would the Government play in connection with your organization? There is no reason why you could not get together and voluntarily organize such an organization as you propose here, is there?

Mr. SCHMIDT. There is every reason in the world why we cannot. It simply cannot be done, and experience has proven it. The public has bought in the past through discount agencies, or guarantors of mortgages if you will, these securities and it is believed that if this provision is made——

Senator COUZENS (interposing). Then the old rugged American individualism has fallen down, is that your proposition?

Mr. SCHMIDT. Yes, sir; in that respect.

Senator COUZENS. So that all those who desired more business in Government and less Government in business have reversed their attitude.

Mr. SCHMIDT. In our judgment there are certain basic spots where the Government must inject itself.

Senator COUZENS. I see. That is a new theory, isn't it?

Mr. SCHMIDT. Yes, sir.

Senator COUZENS. And it must have been developed recently.

Mr. SCHMIDT. It is new. And yet it has 2,000 years behind it when applied to credit instrumentalities of government. Governments have always directed credit instrumentalities. For instance, the Government has protected the banks where we have had banks.

Senator COUZENS. Oh! They have, have they? I thought the Government had not protected the banks, from all that I had heard, and I am surprised to hear you say that.

Mr. SCHMIDT. Well, they have tried to protect the banks.

Senator COUZENS. The way depositors are calling for their money I am surprised to hear you say that there has been any protection of banks.

Mr. SCHMIDT. Well, they have not been protected to the measure some have wished, due perhaps to the economic direction on the part of the Government. But the Government throughout all history has attempted to protect its currency and its banking system. Don't you admit that, Senator Couzens? Don't you think that has been a proper attempt, that it has been one of the prime functions of the Government?

Senator COUZENS. Well, I am not on the witness stand. I am seeking information.

Mr. SCHIDT. All right.

The CHAIRMAN. Do you favor the setting up of these corporations mentioned in titles I, II, and III?

Mr. SCHMIDT. We do.

The CHAIRMAN. And then you want an additional corporation set up?

Mr. SCHMIDT. That is correct.

The CHAIRMAN. Under another title. Doesn't that national farm association provision take care of your situation?

Mr. SCHMIDT. No. This is on urban mortgages only.

The CHAIRMAN. I mean the National Mortgage Association, title II.

Mr. SCHMIDT. There are two points in connection with these associations, Senator Fletcher. The first is that there has been considerable objection raised to them, as being competing instrumentalities. We feel on that point that if it should be decided they could not be continued as a portion of the bill in your good judgment, that the instrumentality we propose would be one of immediate operation. While it would not take the place of these other agencies as provided in the bill, it would nevertheless supply their place in very great measure.

We feel, on the other hand, that that which it proposes would be extremely difficult, I mean to get these associations going within a reasonable time and to perform the functions which are designed to be performed by them; that they will require the securing of major sums of capital, and that capital is not being placed in investments today. It is being held in as liquid a form as the people can hold it. The few that have it are frightened still and are not placing their capital where it will be useful.

We further feel that there may be some question as to the large operation of these agencies as proposed to be set up. We feel that it may take them a great many years to come to the point of performing the function designed. There is the feeling that the immediate and pressing obligation in our situation is the matter of reemployment, and that, as previously stated, if the construction industry can be revived it will take care probably of approximately 75 percent of that unemployment.

Senator COUZENS. Would the construction industry be willing for the Congress to set up unemployment insurance and charge a fee on all this construction work for the purpose of assuring these men work?

Mr. SCHMIDT. Personally I am very much in favor of that, Senator Couzens.

Senator COUZENS. Can you speak for the construction industry on that point?

Mr. SCHMIDT. No, sir; I cannot. I represent the National Association of Real Estate Boards.

The CHAIRMAN. You speak of about 75 percent of the unemployed being taken care of by this measure you propose. About what number of people do you think would find employment now under this proposal.

Mr. SCHMIDT. It has been my understanding, Senator Fletcher, that there are between 5 and 6 million men normally employed in the construction industry; that of that number there is unemployment to the extent of over half. I understand in the residential field that but 10 percent are employed.

I might add that it is further true that for every man employed in the construction industry he carriers with him some 3 or 4 men employed outside of the construction industry. I understand that

approximately 50 percent of our manufactures in this country represent men engaged in the making of materials that go into buildings.

Senator TOWNSEND. What effect would the tremendous increase in the price of building materials have upon this program?

Mr. SCHMIDT. I think that temporarily that price must be kept down. But I think that experience has proven——

Senator TOWNSEND (interposing). How will it be kept down?

Mr. SCHMIDT. You have your largest activity in building construction when prices are highest, because money is more available then.

Senator TOWNSEND. How can you keep prices down? They are up now, as I understand the situation.

Mr. SCHMIDT. They are up to approximately 90 percent of the peak. There has been an increase as we estimate it of some 30 to 35 percent since the N.R.A. went into effect.

Senator TOWNSEND. Do you think that increase is justified?

Mr. SCHMIDT. In large measure I do. I think that many concerns supplying materials were selling at less than cost in order to liquidate the suply they had on hand, on the one hand; and, on the other hand, in order to keep their organizations intact, rather than to let them completely disintegrate. I think that the major portion of the increase is probably justified. Also there has been an increase in wages in many fields, which justified some increase.

The CHAIRMAN. Has there been an increase in the durable goods production lately?

Mr. SCHMIDT. Not to the extent that there has been in other fields. And the reason for that is rather obvious, it seems to me, and it is that capital goods cannot be created out of income. They must be created through the pledging of the future in some measure. And the money to supply that pledging of the future has not been available to those who were willing to proceed.

I might say that I happen to have a rather large real-estate office. We made 31 sales last month of properties of different types, and every one of them except one was for cash. In other words, the only persons buying were persons who had the cash. They bought because——

The CHAIRMAN (interposing). Could that property have been called distress property?

Mr. SCHMIDT. Not entirely, but property which they felt could be purchased at a low figure, not necessarily distressed in the sense that it was in default on mortgage. We sold quite a number of lots in those 31 transactions, where houses were to be constructed, and the builders who bought those lots told us that every one of their contracts—and they will only buy if they have a person in hand ready to build—was a cash contract. The reason is that you cannot in our community, despite its wealth, secure mortgage money for new building purposes. There is a little mortgage money from some of the insurance companies on existing buildings, as I stated up to about 40 percent of the appraised value of the property.

We feel that to a further thing that has been brought out in previous testimony we wish to offer the opposite position to that which has been expressed here, and it is to this effect: It has been said that the Government would sustain very great losses if it injected itself into the mortgage situation. We feel that that conclusion is based on the fact that if the Government had injected

itself into the mortgage situation at the peak it would have sustained losses. But we feel that by injecting itself into the mortgage situation under the present inflated conditions offers every assurance that there will be no loss, that prices will increase so as to protect any investments made.

The CHAIRMAN. You will submit your proposal there to go into the record, will you?

Mr. SCHMIDT. Yes, sir; I have already handed it in for the record.

The CHAIRMAN. You may proceed.

Mr. SCHMIDT. We would also like to suggest that the provisions of the Home Loan Bank Act be enlarged in order to make that agency a more useful instrumentality through the admission of a larger percentage of those engaged in the mortgage-lending field upon residences. At the present time it is our understanding that approximately 15 percent of the home-mortgage lending volume is represented in the home-loan bank. We think lack of representation in that system is probably occasioned by restrictions of too severe a character; and perhaps further by the cost of membership. We merely wish to suggest for your consideration therefore that there be some elimination of restrictions, and perhaps a reduction of cost, to base that cost rather upon the use made of the instrumentality than upon the size of the corporation entering, so that there will be more members secured in that system, which we think can be made extremely valuable in the matter of stabilizing our mortgage situation.

The CHAIRMAN. There were some amendments proposed to this bill as to the Farm Credit Act and the Home Loan Bank Act, and the Federal Reserve Act.

Mr. SCHMIDT. They do not go to that point of making membership in the home-loan-bank system more easy of attainment.

The CHAIRMAN. Very well. We are very much obliged to you.

Mr. SCHMIDT. And I thank you for hearing me.

The CHAIRMAN. Now, if Mr. Brown will come around and take a seat at the committee table opposite the committee reporter. Will you state your name, residence, and occupation?

STATEMENT OF LEWIS H. BROWN, GREENWICH, CONN., PRESIDENT OF THE JOHNS-MANVILLE CORPORATION AND MEMBER OF THE DURABLE-GOODS INDUSTRIES COMMITTEE OF THE N.R.A.

Mr. BROWN. Mr. Chairman, I come here as the representative of the durable-goods industries committee that was appointed under N.R.A. auspices, and which was asked to make a report to the President of what could be done to further the elimination of unemployment and to stimulate recovery.

Senator COUZENS. What is your position, Mr. Brown?

Mr. BROWN. I am president of the Johns-Manville Corporation.

Senator COUZENS. Thank you.

The CHAIRMAN. You may proceed.

Mr. BROWN. An analysis of employment by the durable-goods industries committee indicates that out of a total of 49,000,000 people gainfully employed in 1929, approximately 10,000,000 were engaged

in the production of durable goods such as construction, automobiles, machinery, and so forth, as contrasted with those goods which are consumed or perish quickly, like food, clothing, and so forth. More than 9,000,000 people are still unemployed, and of this number nearly 5,000,000 have come from the durable-goods industries, of which almost half were formerly employed in the construction industry specifically. The key to the unemployment problem is found by this analysis to lie in the stimulation of the durable-goods industries which by their increased activity will create additional employment in other producing industries and the service industries. Additional employment cannot be absorbed at increased cost until the demand for durable goods is increased. This is a basic need for recovery.

As a result of their analysis, the durable-goods industries committee endorses in principle the administration's basic proposals embodied in the Senate bill S. 3603, entitled National Housing Act. It is our belief that this is the greatest single step that can be taken toward bringing about recovery by stimulating sales and increasing employment directly in the durable-goods industries and specifically in one of the country's basic industries—construction and building.

The construction industry, normally employing more than 3,600,000 people directly, indirectly influences the employment of large numbers in nearly every other industry in this country. More than 10 percent of all the workers in the United States are estimated to be dependent directly or indirectly upon construction work. If this is so, at least 10 percent of all consumer products may be said to be bought by these workers.

As an indication of the influence of building upon other industries, more than 1,100,000 or one tenth of the manufacturing workers in the country were engaged in the production of building materials, equipment, and supplies, according to the 1930 census. The value of products was $5,500,000,000, or one eighth of all manufactured goods produced in this year. Similarly, more than 7,000,000 carloads of freight, or 1 out of every 5 cars, carried construction materials. Nine percent of the country's wholesalers were engaged in the distribution of construction materials and 5 percent of all coal mined went to the manufacture of building products. The lumber industry alone was the largest employer of labor in nine of our States. With the exception of agriculture, the construction industry is the greatest employer of men. For every man put to work in building a home, it is estimated that two are required in mines, factories, forests, and railroads to make, deliver, and service the materials used.

It has been variously estimated that the national wealth is 380 billions of dollars. The value of dwellings alone in this country, according to the 1930 census, represents more than one third of the total wealth of the country. The building industry is directly related to the largest single class of outstanding long-term capital indebtedness. The total real-estate mortgage debt of $43,000,000,000 is roughly four times the total industrial long-term debt; four times the public utility long-term debt; three times the total railroad debt; and nearly as large as the combined National, State, county, and municipal debts. Approximately half of this debt or $21,000,000,000 is represented by mortgages on individual homes alone.

In the past 5 years the construction industry has gone through a disaster greater than that of any other large industry. This is typi-

fied by the fact that more than one fourth of all present unemployment occurs in this industry.

The 1926 level of total construction aggregated more than $7,000,000,000. The 1933 construction totaled less than 20 percent of this. Residential building accounts normally for 50 percent to 60 percent of total building. In 1933 residential building had declined 90 percent or to 9 percent of the 1926 volume. A normal residential construction year aggregated $3,000,000,000. In 1933 less than $300,000,000 was spent on new homes. In the last 2 years, not enough single homes have been built to replace those destroyed by fire alone. We have an annual need of 400,000 home units. In 1932 and 1933 the Department of Labor estimates that not more than 40,000 homes were built each year, or a bare 10 percent of the requirements.

This country is not overbuilt at the present time. A very definite need for homes exists that has been variously estimated by reliable sources from 800,000 to 1,500,000 single units. This need has not been apparent as a real demand because of lack of purchasing power, lack of availability of mortgage money, and the doubling up of families.

Regardless of the fact that we have had a depression, the country has continued to add to its population and also to the number of families during the last 3 years at the estimated rate of 350,000 families per year. Homes have probably been provided for not more than one third of the new families during this period and we have made no provisions at all for replacing those homes which have been destroyed by fire or have become obsolete. In addition, many thousands of our present homes are in vital need of repair to make them livable and healthy. I have seen estimates that postponed repairs and improvements to homes are accumulating at the rate of 2 to 3 billion dollars per year.

Some of the real property inventories now being made available by the Department of Commerce bear out these facts. For example, the reports on the little town of Nashua, N.H., indicate that in a total of roughly 4,600 homes, and the doubling-up of families and definite conditions of crowding were reported in almost one fourth (1,100) of them. More than 2,000, or almost half of these homes, needed minor repairs, 500 needed basic repairs in the structure to make them safely livable, and 90 of them were totally unfit for use.

The farm housing survey made under the direction of the United States Department of Agriculture indicates that in one county in Kentucky 22 percent of the farm houses need to be completely replaced. In the same county 62 percent of the occupants of homes want an additional bedroom, 31 percent an additional living room, and 63 percent additional storage space. An even greater percentage of the homes indicated needed structural repairs varying from new foundations to new furnishing and including every conceivable portion of the house.

These facts do not lead to the conclusion that this country is overbuilt or that a market for products of the construction industry does not exist.

The question remains, Why is building not going ahead? Possible reasons, as indicated by an actual survey of conditions made, are (*a*) high cost of building, (*b*) lack of purchasing power, (*c*) lack of mortgage money, and (*d*) not profitable as an investment.

Those are the main reasons given as to why building is not going ahead.

Senator COUZENS. What is that based on?

Mr. BROWN. C. W. Young & Co. made a survey and reported the statistics.

Senator COUZENS. Have you read Mr. Ackerman's articles in the Architectural Forum?

Mr. BROWN. I do not recognize those articles by name.

The CHAIRMAN. Very well. You may proceed.

Mr. BROWN. Only 10 percent of the people gave the high cost of construction as a reason why they were not building at the present time. A comparison of the changes in building costs during the past few years, using 1913 as 100, indicates the following: Building material prices in 1926 were 76 percent above 1913. At the end of 1933 they declined to 35 percent above 1913. In March of this year they were roughly 50 percent more than in 1913, or 25 percent less than in 1926. Building trades wages in 1926 were roughly 250 percent of the 1913 base. Wages had declined last year only about 5 percent from the 1926 level and have increased slightly during the first months of this year.

The total cost of building in 1926, roughly twice that of 1913, was in March of last year less than one third more costly than in 1913. In April of this year building is roughly half again as costly as in 1913.

To answer the question that building material costs are too high, I can compare them with commodity prices of basic necessities. Since March of 1933 the cost of wheat has been almost doubled and the cost of flour has gone up 75 percent. During this same period the cost of brick and cement have both gone up roughly 10 percent. In a period of a year the cost of wool and cotton which go into clothing has almost exactly doubled. The price of paint has been raised about 30 percent on the average. I could make similar comparisons with other commodities, but any general figures on commodity prices are apt to be misleading for they do not show the actual price at which transactions are made. The cost factor is relatively unimportant as an obstacle to a revival in construction.

What about mortgage money and the value of building as an investment? The almost total lack of mortgage money and the unprofitableness of any investment in construction are indicated by more than 50 percent of those replying to the questionnaire as reasons why they are not undertaking building projects at the present time. The answers to these two objections lie within this housing act. It is an underlying purpose of this act to make mortgage money available where there is now a shortage and to make that investment more profitable by reducing the cost of obtaining mortgage money and eliminating the unsound practices of the past. Capital invested in land and building declined from an average of $61,000,000 a month in 1926 to practically zero in 1933. Any man who has attempted to obtain mortgage money on worth-while property from almost any source in the past few years can testify to his inability to obtain such a loan regardless of the worth of the property.

A large industry association recently checked this situation with a survey on which they received reports from a sample of the

country's building supply dealers, covering more than 1,700 dealers in 883 counties of the 48 States. In practically 75 percent of the cases, no first mortgage money was stated to be available. In 124 counties out of the 883, there were located no lending institutions of any nature. Seventy-six percent of the dealers reported a very definite need for 75 percent amortized loans as the type most necessary to stimulate any form of building. Should mortgage credit be made available, these dealers, representing a sample of about 9 percent of the total dealers in the country, indicate a market would be immediately opened for 275,000 homes and more than 250,000 farm buildings.

By opening up new sources for mortgage money where it is not now available and by insuring mortgages on new and existing homes, this bill should again induce private capital to make an investment where in the past few years it has been unprofitable and even hazardous.

A lack of purchasing power is stated by roughly one fourth of the people who replied to this questionnaire as another reason why they are not building. Increasing the purchasing power of this country depends upon putting people back to work and I have already shown that this can best be done by stimulating the construction industry where the greatest unemployment today exists.

We come back to the question, How is this housing act to put people back to work? It is designed to accomplish two things: First, to assist in immediate recovery through the rapid employment of men in a Nation-wide modernization and repair program, and, second, to encourage permanent reforms in our mortgage structure which will assure a continuation of this employment through the stimulation of new home building on a sound basis over a long period.

There are 26,000,000 homes in this country, a large percentage of which not only are in vital need of repair work to maintain their usefulness as homes but practically every one of which can be renovized or improved. These homes can be made more comfortable and healthful places in which to live. Proper improvements will increase their value and protect the investment which the owners have made. The normal large construction job requires a considerable amount of estimating, engineering work, and planning which may require as much as a year to 2 years before men are actually put to work in the field and in the factory supplying the materials. The average home-modernization project or building-repair job can be quickly planned and estimated, and men may be put to work within a few hours to a few weeks from the time when the home owner desires to proceed. It is evident that the drafters of this housing act recognize this important time factor and by providing definite incentives in the way of advantageous credit terms and by providing a definite program for stimulating this activity in all types of buildings and homes have produced a sound plan from which substantial results can be obtained most quickly.

A modernization program amounting to possibly $750,000,000 a year over the next 2 years would stimulate an employment of more than 1,000,000 men for 4 months of each of these years. This is the immediate need, and each month of delay adds to the burden of our relief program that much more. Unquestionably, the plan requires

a careful program of selling in every community in order to speed its effectiveness.

The portions of this act providing for mortgage insurance and the establishment of mortgage associations, as well as the insurance of building and loan association deposits, should promote a flow of private capital into the most important part of the construction industry and within a period of a very short time return the operation of the construction industry and return the employment within this industry to a better balance with that of other industries. The effect should be pyramided many times beyond the direct influence upon the construction industry and the durable-goods industries through the stimulation of purchasing power of this group with resulting effect upon every industry in this country. This plan serves to eliminate many of the mortgage evils of the past, resulting in unwise speculation and excessive mortgage money costs, which have frightened private capital away from investment in this field during the past few years.

If the mortgage market and a free flow of capital is not reestablished, the construction industry cannot expect much building in the balance of this decade. It has been estimated by one very reliable source that under present conditions, and if we do nothing, we can expect no more than $2,000,000,000 of annual construction over the next decade, or not more than 25 percent of the average annual volume during the past decade. This adjustment in the size of the construction industry to one quarter of its former size will result in a permanent unemployment roll of 2,500,000 men in the building industry alone. The only possible support which these men can obtain will be from the dole or some other form of relief which must throw a burden upon every other citizen of the country, or get back to the land and get support for themselves.

If the provisions of this bill are put into effect, it is estimated that the annual construction market can absorb in the next decade a considerable portion of the present 2,500,000 unemployed in the industry. Construction volume should then amount to 2 to 3 times present estimates or a total of from 4 to 6 billion dollars annually. These predictions do not indicate an immediate return to a construction volume comparable to that of the last decade, but they indicate an adjustment of the industry to a new level which should enable us to provide employment for the majority of those now unemployed and assist in the stabilization of all other industries.

Housing represents in normal years 60 percent of the total construction industry. This bill will stimulate the major proportion of that industry by encouraging the free flow of capital from private sources. The balance of construction can well obtain its financing from existing private sources when a sound investment basis is demonstrated.

The long-term phase of this program places the construction industry in a position to expect a normal volume of business with a normal level of employment if the mortgage market is opened up as designed, if the home owners will borrow, and if the investors will lend their money. Results from this plan cannot be expected rapidly since a careful program of education for communities, for the farmer and for the home owner must be carried out to encourage efficient planning and maintain standards of design and constructin that will

provide a worthwhile investment for the home owner's fund. This program of education must reach every factor in the construction industry in order that the evils of the past may be eliminated and a sound structure built for the future.

The provision of new housing for our people and the badly needed repair of existing homes are far more than economic necessities. The health, morals, citizenship, and the basic standard of living of our entire people are vitally affected and influenced by the houses in which they live and the homes in which they raise their families. No estimate can be made of the wealth which would be added to this country by eliminating crowded housing conditions and making more healthful the many city and farm homes which are now inadequately provided with what many of us call the ordinary conveniences of our civilization. It is my belief that the essential repairs of old homes and the stimulation of construction of new homes made possible by the passage of this act should alone warrant its support and careful consideration.

I cannot predict the immediate success of any of the major phases of this act to bring about recovery or permanent reform in this great industry but I can foresee greater possibilities for a stimulation of recovery and a return to a normal basis over the next decade of the durable-goods industries through the operation of this plan than by any other program yet devised. This act does not involve a program for the benefit of any one industry, but by stimulating a new volume of business in the large group of industries which provides new homes and better homes for the people of this country, I can see one of the most powerful means for returning to work a very substantial portion of those now unemployed, for broadly stimulating increased buying power and for encouraging the return of private capital into sound investments. The results should be far-reaching, not only in an immediate effect but in providing a permanent stablizing and corrective influence on our country's greatest market for goods and services of all kinds.

Senator COUZENS. On yesterday it was testified here that about 33⅓ percent of the defaults in the case of mortgages was due to unemployment. Would the durable goods industries be willing to subscribe to an unemployment fund to insure income for these workers?

Mr. BROWN. Do you mean in the next depression?

Senator COUZENS. No; now.

Mr. BROWN. An insurance fund has to be built up.

Senator COUZENS. Wouldn't you be willing to commence subscribing to such a fund, or, I mean, would not the durable goods industries be willing to subscribe?

Mr. BROWN. I do not know that I could speak for the durable goods industries, but for my own company I would be in favor of it. I think the time is coming when industry is going to employ some form of unemployment insurance.

Senator COUZENS. You have given a good deal of time on the durable goods industries committee. Would you object to taking up with them this matter and see if they would endorse that plan inasmuch as they have endorsed this plan?

Mr. BROWN. I will take that up with them.

The CHAIRMAN. You have a great enterprise, the Johns-Manville Co. You have been doing a great deal in the way of financing construction, repairs, and modernization, and all that sort of thing. Would you give us, if you will, a description of some of your activities in that field, and your experience?

Mr. BROWN. I will be very glad to do that. We tried 10 years ago a plan of selling modernization of structural appliances on a time-payment basis. The cost was high and the plan failed largely because of the red tape involved in making it effective. Three or four years later we tried it again and the plan did not succeed. We finally evolved a plan out of our experience and put it into effect for ourselves. That has been in effect now a little over 3 years. We have sold all over the United States to home owners modernization and repairs. The average amount of those sales is something over $200 a job. It is divided about 50 percent for materials and about 50 percent for labor. Those were sold on time payments, the most of them for 12 months, but running up to 2 years. The total for financing that plan runs 12 percent as an added charge, not interest but 12 percent for the whole thing, the carrying and the financing charge. It was lower than any plan that had been in operation before, primarily because we were able to reduce our overhead expense by utilizing our own credit departments.

We have sold something close to 1½ million dollars of goods under that plan. Our losses have been 2.07 percent, or practically 2.1 percent.

The plan has not returned a profit up to date, but it is practically breaking even on the 3 years' operations.

Senator BANKHEAD. What security do you take?

Mr. BROWN. We take the home owner's note without recourse on the contractor who did the work, which had always been required in other plans. And it was simply based upon a credit investigation of the home owner who wanted to have the job done, his source of income, the indebtedness status of his property, and the need for the repairs. That is a very simple note, and it is based on consumer credit, the individual's credit standing.

Senator BANKHEAD. You spoke of the labor item also included in the average of about a $200 job. How is that handled?

Mr. BROWN. In the same way. It is for all of the job. From the home owner's standpoint, from the standpoint of the man who wants a remodeling job done, our own requirements are that our materials must constitute 25 percent of the total amount. The rest of it may be material from other manufacturers, and for labor. From the home owner's standpoint he gets a job of $200, say——

Senator BANKHEAD (interposing). Then he gets an advance with which to pay labor?

Mr. BROWN. Yes. For instance, a home owner wants some remodeling done. His credit standing is looked up, and the standing of the contractor who is to do the work is looked up. The contractor, after the job is completed, must get from the home owner a statement that the work has been satisfactorily done. And the contractor agrees that if there is any complaint about the workmanship he will make it good or buy back the note.

Senator BANKHEAD. Then you really deal with the contractor?

Mr. BROWN. The deal is with a contractor, the man who actually installs the job. But he gets his money immediately, and the home owner pays for the work on a monthly payment basis. It is substantially the same basic plan as that outlined in this bill.

Senator BARKLEY. Then you do not have anything in the form of a mechanic's or material lien?

Mr. BROWN. No; we take a note. We have simplified it down until we have the whole thing on a small sheet of paper, have the whole thing brought down to the simplest possible basis, so that the home owner is not bothered with all sorts of legal papers and documents and that sort of thing.

Senator BARKLEY. Have you stated what the percentage of losses has been that you have sustained by that process?

Mr. BROWN. Yes. It is about 2.1 percent, based over 3-year period.

Senator COUZENS. How much money have you outstanding on that class of paper now?

Mr. BROWN. I think in the turnover—and you see it is being paid off all the time—it is about $400,000.

Senator COUZENS. You have that amount outstanding at this time?

Mr. BROWN. Yes, sir.

Senator COUZENS. Out of an aggregate amount of how much?

Mr. BROWN. Close to 1½ million dollars. It runs about a third of the amount, as you are turning it over in the varying terms of payment. We find from our experience that only 5 percent possibly under this plan are delinquent in their payments as much as 30 days past due. Ninety-five percent of them are paying up on time.

Senator BANKHEAD. How do you arrange the installment payments, monthly or quarterly?

Mr. BROWN. Monthly.

The CHAIRMAN. The amount of interest on the face of the note is how much?

Mr. BROWN. There is no interest on the face of the note. It is simply a financing charge added to the amount of the note, amounting to 12 percent, which covers interest, financing charge, charge for the credit investigation on each note, and all the factors, in one lump sum.

The CHAIRMAN. Are there any further questions of Mr. Brown? (A pause, without response.) We are very much obliged to you.

Mr. BROWN. And I thank you for hearing me.

The CHAIRMAN. Now if Mr. Kingsley will come around to the table and take a seat opposite the committee reporter.

Mr. KINGSLEY. I thank you, Mr. Chairman.

The CHAIRMAN. Will you please state your name, place of residence, and occupation?

STATEMENT OF WILLIAM H. KINGSLEY, PHILADELPHIA, PA., VICE PRESIDENT OF THE PENN MUTUAL LIFE INSURANCE CO. IN CHARGE OF MORTGAGE INVESTMENTS

The CHAIRMAN. Mr. Kingsley, you have examined the pending bill (S. 3603), I take it?

Mr. KINGSLEY. I have, Mr. Chairman, and I will try to be as brief as possible in presenting this situation, if I may.

The CHAIRMAN. We are very glad to hear from you about it. You may proceed in your own way.

Mr. KINGSLEY. I come as one not representing any single life-insurance company or any group of life-insurance companies, but as one who, having had over 40 years' experience in mortgage lending throughout the United States, has by invitation participated in conferences with Government officials for several years.

Now, as to the consumers' credit feature: Unreserved encouragement and heart-whole support should be given to the residence reconditioning and repair provisions of this bill. Everyone knows of the continuous undertaking of the Government to provide work for the idle but efficient artisan, who asks only for an opportunity to earn money at his trade in order to support his dependents. Thousands of this class have been given employment of a nature unrelated to their vocational training so that they might have money for the bare necessities of life and thus avoid subsisting on welfare aid. A Nation-wide urge with governmental backing and facilities afforded by this bill would give wide-spread employment and have visible results of an enduring nature.

I might say that life-insurance companies, or at least the one I am engaged with, has been for quite a while engaged in reconditioning all types of properties throughout the country. And it has had a very good result on reemployment.

As an instance of what may be done under this plan, there may be quoted the "Renovication plan", generated in Philadelphia 2 years ago. Well-organized forces set a goal of $15,000,000 to be expended. Commitments totaled $17,000,000, and this sum was exceeded in cost of work actually done. It gave pronounced employment to builders, material men, artisans, and laborers. Particularly would this plan appeal to the involuntary owners of residence property acquired under foreclosure, and it would bring to the hands of real-estate men an enlarged number of properties which could be sold on very easy installment terms.

Now I will take up the Home Credit Insurance Corporation proposal, if I may. The proposed Home Credit Insurance Corporation might well be studied from the viewpoint of apprehension rather than enthusiasm. While Government funds are not timidly appropriated in these times, the necessity of safety of undertaking and assurance of ultimate return to the Treasury, are essential.

The factors that enter into guaranteeing mortgages are so numerous, uncertain, and uncontrollable in final outcome as to put results beyond proof by mathematical calculation. Experience should guide our minds on this feature of the bill.

To set up loans of 80 percent of valuations, running for 20 years, amortized at 5 percent per annum for an annual premium of 1 percent is to assume that such premium would protect the guarantor against obsolescence, unfavorable location trends, business reverses, unemployment, sickness, or death of owner, local zoning laws, and other features of indeterminate bearing.

It is well known that corporate and institutional lenders whose mortgages by statute are required not to be in excess of 60 percent of appraised value—which represents a large volume on new homes—have been obliged to foreclose loans that have been materially reduced by principal payments and are finding scant, if any, market

for residence property even on a 5 or 10 percent down payment, with low figure reductions.

Wide-spread evidence of the result of thin margins on mortgages is furnished by the liquidation and receiverships of many lending associations throughout the country. It is quite evident that the present generation has not the same reverential feeling for home ownership that was imbued in our forefathers. Old-fashioned tenacity of holding homes seems to be diminishing.

I think that is reflected to a very great extent by the transition from unit homes into apartment life. In the discussions which have taken place in respect to vacancies, I feel that the figures have only been given as to unit homes, and it is very generally known that the occupancy of the higher type of apartment houses is about 55 percent of capacity. The fact should not be lost sight of that there are hundreds of thousands of what were originally constructed to be individual homes which have been transformed into apartments, two apartments or three apartments, and in those cases the actual occupancy is probably on the average not to exceed 35 percent. There is a tremendous vacancy existing in that type of house. And that must all come into this picture.

Senator BANKHEAD. Let me ask you a question right there. You speak of the trend from the individual home to apartment occupancy. Do you attribute that primarily to the difference in cost of living?

Mr. KINGSLEY. It is rather difficult to prove the cause of that tendency. I think people are living different modes of life than they used to. They regard the home as a place in which to sleep, to entertain to some extent, but the introduction of outdoor activities and the whole change in the inclination of the people I think has introduced a different situation, has induced a great many of them to go into apartment houses and avoid the responsibility of housekeeping. At least that is a part of it. It is rather difficult to center upon conclusive proof of that kind. But that is the tendency, and I think it is very pronounced and real.

Senator BANKHEAD. How does the cost compare on the average?

Mr. KINGSLEY. Well, the cost is undoubtedly lower in the case of apartment-house living in these days. And added to that we have the popular expression that one does not have responsibility. You turn the key in your front door and wander off and it is there. You have your electric light and refrigeration and a few other things supplied, and it is much easier as a manner of living, and even if the cost were equal in the matter of dollars and cents it is preferred by a great many people. But if you are speaking of the average apartment occupant I think you will find the cost would be cheaper.

Senator COUZENS. What have you to say to the old statement that fools build houses for wise men to live in?

Mr. KINGSLEY. I have gone through that as a personal experience; yes, on both sides of the question.

Senator BARKLEY. Most people now would rather sit in an automobile that is moving than to sit quietly on the front porch.

Mr. KINGSLEY. Yes; things have changed.

The CHAIRMAN. Very well, Mr. Kingsley. You may proceed.

Mr. KINGSLEY. The large numbers of mortgages that have been foreclosed have brought to the real estate sales market an equivalent

amount of modern residence property which is offered for sale at from 40 to 50 percent of its ground and construction cost. Lower sales prices prevail as to obsolescent and speculatively located property. There are large numbers of residences in these times that are either courtesy-occupied to prevent vandalism, rented at nominal figures, or tenanted by those who have ceased to pay rent, but whose circumstances preclude the thought of dispossession processes.

If we were now happily facing a fullness of returned prosperity it would take at least 6 months to reaccumulate resources, undouble merged families, pay contracted debts, and get our bearings so as to avoid repeating past mistakes, and during such period all the additional homes then needed could be built.

I think that is a fair statement of fact with respect to construction. I might add that while I am not appearing for any one life insurance company or any group of life insurance companies, incidentally I will say that I am connected with one. And I do want to correct the statement that has been made so frequently, and which I heard repeated this morning again, that life insurance companies are or have been out of the mortgage business. We have not been out of it. There was a period of a few weeks following the bank holiday when we all had to see just the way things were going to turn in order to hold our resources, because we did not know what demands would be made on us. But 4 months ago many companies, including our own, and since then practically all of them, have requested every one of their mortgage representatives throughout the country to dig up and send in mortgage offerings, particularly on residences. That has not been fruitful of result.

In our own case, if I may take a moment to explain it, and it is a typical institution, we had the country divided up into five sections, and each is in charge of a well-trained home office man. And then every city in each section has a mortgage correspondent for the procurement of loans, collection of interest, and the servicing of any real estate. Now, the earnestness with which those people approached that subject was very real, and we found that in many, many cases the offerings that were made were of damaged goods or diseased mortgages, so to speak.

Now, of course, you cannot lend your money for relief for the mortgage holder. In many instances foreclosure was pending. In other instances foreclosure was threatened. In other instances there was a large accumulation of taxes, and that increased the principal amount required.

So we have not been able to get any flow of loans, nor do we look forward to it at the present time. What the companies are doing is selling or at least offering for sale a tremendous amount of residence property on any favorable terms, 5 percent down, monthly payments, the making of repairs and keeping it going.

Now, there is a certain percentage of that, and it is rather high, of repossesion of such property after you have made these contracts. These contracts are not made as deeds and mortgage transactions, but under contracts of sale, and when a certain amount has been paid then a deed is given and the mortgage taken back.

So that there does not sem to be an indication of that fixity of purpose in the people of owning their homes or of repurchasing that we wish were the case, or that we think should exist.

A further thing is that there are a great many mortgaged homes where first, second, and third mortgages perhaps are so heavy that the man can go down the street and buy almost the same home, where there is only a first mortgage on it, and it has got rid of obligations of junior liens, particularly if it has been foreclosed. Those junior liens very often are obligations put on by a straw man as a part of salesmanship.

But this is a subject we might talk on all day, and I am not unmindful of my promise to be brief on it.

With respect to the national mortgage associations, that subject has a great many angles to it. It presupposes that it is necessary to set up activity for mortgage lending. It is doubtful if it is necessary or could be used for the reason that, assuming that there was a normal flow of money for mortgages, that it was adequate to the needs of the past, that flow is still available and will be here without mortgage companies coming in.

Investors who make investments for the purpose of holding them, not to sell them, not to speculate in them, but to hold them to maturity, ask nothing better than to get a mortgage that can be preserved in good standing, and establish a relationship that is wholesome between the borrower and the lender, bringing about its reduction and ultimate payment, giving all sorts of indulgences where necessary. It might surprise you to know that companies today are carrying a tremendous number of mortgages on a 3-percent basis temporarily.

Senator COUZENS. You mean 3 percent interest?

Mr. KINGSLEY. Yes, sir. They will not foreclose against a man unless the man simply throws the thing in their lap. Many of them offer you deeds. They are not always safe to take, but if the companies were to acquire all the real estate they could you would find a very great increase in the loss of property and homes.

I know you gentlemen have not the feeling that insurance companies and other kindred organizations are hard-hearted Shylocks that are just trying to take homes away from people, because they have advanced taxes, suspended installment payments, curtailed interest, and done all sorts of things—even given a little money for repairs—because the last thing a company wishes to do is to acquire real estate.

Senator BANKHEAD. I have found in my section a very liberal attitude on the part of insurance companies.

The CHAIRMAN. One of the complaints here is not about the disposition to foreclose the mortgage, but when they undertake to get a renewal of the mortgage the borrower claims that the commissions which have been exacted—in some cases 4 percent—are very objectionable.

Mr. KINGSLEY. That would be so if it were true. As a matter of fact, practically all the insurance companies today are under very heavy expense for so-called "servicing charges." The major purpose and undertaking of your operators is to bring about a renewal of the mortgage without expense. Here and there mortgages have been secured by brokers who feel that they have a vested interest in the renewal, and that they must deal with the owner, and if you cannot make terms he will go elsewhere. That has faded out, because it is very difficult to place. I am speaking now of larger mortgages on

business properties. I think you will find, Senator, that is the least of the trouble. Investigations that we have made of instances of commissions show that they run about 2 percent, and the broker usually divides that into five payments or takes commission notes payable in installments, so that they can be lifted comfortably by the borrower. But I think that commission element has practically faded out, and I doubt whether it will be revived.

Senator BANKHEAD. Mr. Kingsley, have you given any consideration to the effect this bill, as it stands, would have on building and loan associations?

Mr. KINGSLEY. I have not studied that situation, Senator, to the point where I could satisfactorily answer that question. The building and loan associations in Pennsylvania, unfortunately, have had the second mortgage habit, and it gives us an entirely different picture than you would get in some other States. If you have in mind the thought that junior financing means multiplied expense, and things of that sort, a plan that would do away with that would be very helpful to the property owner.

We must not forget that building and loan associations, properly managed—and there are thousands of them in the country—serve the thrift needs of a large mass of people, and in many instances where their assets have been frozen, they have been victims of conditions. The insurance companies, particularly prior to this quite recent collapse of real estate, went out into the State of Ohio, for instance, by invitation, and took over, as I recall it, approximately $70,000,000 of mortgages that the building and loan associations had that were perfectly good, in order to defreeze them, or liquidate them. Those mortgages were just as prime as anything you could have. We went up into Grand Rapids, to a savings fund, and it was not a large transaction, but we took close to $1,000,000 of mortgages from the savings bank up there, and were surprised to find that they were loans, in the main, that were nearer $700 to $800 apiece than they were $2,000 or $2,500, which you would expect. We just cashed those, took them over by assignment, and there has been a great deal of that going on. I am not competent to speak of the bearing of this bill upon the building and loan associations.

Senator BANKHEAD. The chief objection I have heard here has been from them.

Mr. KINGSLEY. I think the building and loan associations, always keeping in mind that there are many of them that are very well and honestly managed, are serving an extremely good purpose. They have been very helpful to people in every way, but, as I say, I have trouble enough with the major things on which I try to keep posted.

I have only this thought about that, if I may conclude with it, that, without going into the subject of insurance of building and loan and kindred shares, it is submitted that these organizations appeal very strongly to the wage-earning investor, whose faith has been shaken, and who has had to suffer great losses. Any safe plan to insure the preservation and return of the investment to those people is very worthy. I have approached this subject more particularly from the standpoint of reconditioning and mortgage lending, being conscious of what I believe to be the underlying purpose of putting people to work decently and letting them hold their heads up at their own vocations. It is not going to get us anywhere if we keep on manu-

facturing goods that we can not dispose of, and I do believe that the greatest opportunity that is presented at this time would be that of so-called "renovation", to be followed later by construction if found necessary. But you will find, I am sure, no shortage of houses or habitations for any class of people.

Senator COUZENS. Do you believe there is any necessity for title II, providing for the creation of national mortgage associations?

Mr. KINGSLEY. I do not like it. I say I do not like it. That is not quite the way to put it. I do not think there is a place for it that would write any history in comparison to the elements of mortgage lending that have been functioning all these years. I do not know what burdens that would bring down on the Government, but I fancy you do not want to take on indigestible material.

Senator BARKLEY. Would that tend to loosen up the sources of private capital for mortgages?

Mr. KINGSLEY. Private capital?

Senator BARKLEY. Yes.

Mr. KINGSLEY. That is hard to tell. There is this to be said about corporate capital, and particularly organizations that operate under statutes. The plan would involve debenture bonds in the ultimate, would it not?

The CHAIRMAN. It provides for debentures and bonds, yes.

Mr. KINGSLEY. It has been provided in the statutes of a great many States that trust and insurance companies and savings funds may not buy debenture bonds. That was put in with respect to railroad debentures, but the principle was that you have got to hold directly the specific debt, and not a collateral debt.

Happily none of you gentlemen is old enough to remember the Jarvis-Conklin Mortgage Co., and the Lombard Investment Co. in the West a great many years ago. They put out $100,000 of debentures against $125,000 of bonds, just as your Federal instrumentalities did later. I was talking yesterday to a gentleman who is living here now. He told me he inherited some of those bonds, and sold them for 7 cents on the dollar, which was the reclamation value of them. They just cannot preserve their collateral of the type that is necessary to support the debenture. I think that is a very ingenious plan, but I doubt very much if it would be of much help.

The CHAIRMAN. Your company does not invest in these debentures or bonds of collateral, but loans direct.

Mr. KINGSLEY. Yes. Thank you very much, gentlemen. I did not mean to take so much time.

The CHAIRMAN. We are very much obliged to you.

Senator BARKLEY. Mr. Kingsley, I would like to ask you this question: In the light of your testimony and your views here, how is it safe for insurance companies to make real-estate mortgage loans at all at this time?

Mr. KINGSLEY. They are making them entirely upon current values, where the property has stability, is well located, and is owned by someone who has some assured income.

Senator BARKLEY. You are making them on deflated values, in other words, now?

Mr. KINGSLEY. It would be on what you would term deflated values, with a tendency to take that into consideration. In normal times you lend 60 percent upon average values.

Senator BARKLEY. You are making your loans on what you call the "cream of the prospects"? You are taking no very long chances?

Mr. KINGSLEY. We do not go down to the bottom of the milk can, but you must bear in mind that we have to be very careful. We have responsibilities to recognize. I do think that the minute the mortgage market opens up helpfully and wholesomely, you will get a flow of money.

The CHAIRMAN. Your usual interest rate is how much?

Mr. KINGSLEY. Our interest rate would average—on all investments, you mean?

The CHAIRMAN. I mean on mortgage loans.

Mr. KINGSLEY. On mortgages?

The CHAIRMAN. Yes.

Mr. KINGSLEY. I should say at the present time 5.2. Into that, you have to take into consideration the circumstance that quite a number of rates have been reduced, but in normal times interest rates will run about 5.45. That means that on superlatively good mortgages you will come down to 5 percent. Those are mostly large mortgages.

The CHAIRMAN. Very well. Thank you, Mr. Kingsley.

Mr. Miller, will you come around? We will be glad to hear from you now.

STATEMENT OF CHARLES A. MILLER, BARNEVELD, N.Y., PRESIDENT SAVINGS BANKS TRUST CO., NEW YORK CITY

The CHAIRMAN. Will you please state your name and place of residence?

Mr. MILLER. Charles A. Miller; residence Barneveld, N.Y.; president of the Savings Banks Trust Co., New York City.

The CHAIRMAN. You were at one time a member of the Reconstruction Finance Corporation Board?

Mr. MILLER. Yes. With your permission I will state my experience, because I do not represent anyone but myself, and it is necessary to know whether I have had experience that justifies me in discussing the question.

Since 1890 I have been rather actively engaged in running a fair sized up-State savings bank in New York, with deposits of upward of $30,000,000, and was president of that institution until I left it to go to work for the R.F.C. When the R.F.C. was formed, I became manager of the New York agency and remained in that position until late July or August, when I became a member of the Board and president of the R.F.C., and remained there until March 4, 1933.

After that, when the trust company that I represent was formed, which has for its stockholders only the mutual savings banks, and has all the mutual savings banks in New York as its stockholders and customers, I was asked to be the president there, and I have been the president ever since.

I have personally appraised many thousands of properties in various parts of the State of New York. In my R.F.C. experience I reviewed the appraisals on literally thousands of properties in New York State, and subsequently, down here, I spent very many nights making personal reviews of the reports on mortgage loans all

over the United States. I think I am fairly familiar with the mortgage situation generally on that account.

I have come here to say that, having first familiarized myself with the original plans which finally eventuated in the bill before you, S. 3603, I am not only genuinely in sympathy with the plans of the bill, but fairly enthusiastically in sympathy with the plans of the bill.

To save the time of the committee, I will simply say, in regard to the first part of it, in regard to rehabilitation, that I have had some experience with that, owing to the fact that, in the first place, I helped get up, and until the last 2 or 3 months, when I went into the trust company, I was one of the directors of the Remedial Loan Association, dealing with small loans, gotten up to do away with the pawnbroking expense and that sort of thing, in my native city of Utica. So that I have had years of actual experience with the small-loan business, as distinguished from the general banking loan.

I thoroughly believe in this provision. Just before I left Utica, just at the time when I came to New York to run the R.F.C., we started to campaign for rehabilitation there, very much the same kind of thing as here, getting the credits where we could, although in those cases we took mostly additional mortgage credits, and with the campaign we pledged people to rehabilitate their houses. The aim we had was to get $500,000 spent in the city on rehabilitation. As a matter of fact, we got cards signed up for that amount, and then they were to report in when the work was completed, and the cost. When the reports came in they were, as I recall it, considerably more than twice, in amount, the amount agreed upon.

So that, in regard to the rehabilitation, I believe that the loans will be safe, because those small loans have a very remarkable record, as anyone who has dealt with them knows. I not only believe that the Government, in assuming the 20 percent, is taking no risk of any considerable amount, but that the actual result on the building trades will be many times the amount that is involved in the actual loans made in the banks. When you get people working at rehabilitation, for everyone that borrows money to do his work, there are two or three that dig up the money without borrowing, and do the work. To my mind that will be a most useful result of this, and if you do not underestimate the time necessary to work it out, if you do not look for results in the next 2 or 3 weeks, or 6 weeks, I think the thing will be tremendously helpful. I do think that it will be a little slower in operation than perhaps some of the advocates of the bill feel. I feel that it is not the sort of thing where you can have a ballyhoo campaign and stir up people to modernize their houses, when, obviously, they have no business spending any money on it. I think it has to be worked out slowly. The main thing is to educate the country banker as to the safety of those very small loans if based on a proper credit examination. In other words, the slowness of operation will be the education of the lending body, which has to be guaranteed, rather than the education of the public to borrow money.

One thing I like about the whole bill is that it implies a system of amortization. The worst thing that has happened to our country is the fact that we have had no systems of amortization worthy of the name. People have thought that when they succeeded in bor-

rowing the money that was all they had to do, and that is just as true of municipalities as of individuals. It is true of the farmer, and the city man alike. They felt that when they got their loan, if they had to replace it they would replace it in the end by borrowing from somebody else, and they lost the habit of gradually having the ambition to pay off their debt.

This bill takes into consideration that situation, because every feature of the bill calls for an amortization of some kind in the matter, and to my mind the United States is not going to save itself until we, in some way or other, have an idea in the future that, although it may be very slow work, we are going to pay our debts. The payment must be made easy enough so that we can pay them, but, by and large, I am reasonably sure from my own experience that the public will do that.

I have been, perhaps, a crank on this subject of amortization, and I have taken up more time with it than you would like, perhaps. But my experience with it began about 1892. You remember that was at the end of the farm-loan panic, that was very bad. At that time I was just coming into the active work in the bank from a subordinate position, and we were bothered by foreclosing farm loans. Every time we foreclosed a farm loan—and the loans were very largely farm loans in those days—when we foreclosed a farm loan and took possession of the property we could not run it. In those days you could not sell it. You could not do a blamed thing with it, and your real estate turned out to be less valuable than the mortgage before you got through with it, to say nothing of the social effect of turning a perfectly decent self-respecting farmer loose on the community.

So that it was about 1892 or 1893 when we conceived the idea of offering to all our farm borrowers a proposition. Either he must keep up his payments—and they were defaulting in their interest payments—or we offered him, as an alternative, the proposition that if he would make those same payments, which were 6 percent in those days, if he would pay that 6 percent, we would credit 4 percent to our interest account instead of 6, and we would credit the 2 percent on his mortgage loan. From the day that we made that offering, it was accepted practically universally. We do not have any more farm foreclosures, and the thing finally resulted in the substantial payment of all those loans. I think we had only one farm loan left when we went into this tail-spin, and that was made since the amortization feature was adopted, and had no amortization feature, except the ordinary one applied to city property. But we practically had no farm-loan problem after we made that arrangement. They paid off the loans.

I still remember one old farmer whom I did not know at all, but he came into the office only a few years before this tail-spin, and said, "Look here. Are you Mr. Miller?" I said, "Yes; why?" He said, "I want you to come out with me. I want to buy you the best dinner there is to be had in the city of Utica." I said, "I am very pleased to dine with you, but why should I go out and get dinner with you?" He said, "If it had not been for you and this amortization business, I would never have paid for my farm. My father had not paid for it before me, and I had always borrowed on

it. Today I just made the last payment, and I got the satisfaction of my mortgage, and I want to buy you the best dinner that can be bought in the city of Utica."

That convinced me that the borrower, when it is presented to him in the right light—at least the country borrower—will pay his amortization. He will welcome the opportunity to get his loan paid. We have been running since 1915, on all our mortgage loans, except our guaranteed loans, amounting to $12,000,000 or more, an amortization, by which they pay 8 percent per annum, instead of the regular going interest rate of 6 percent. That 2 percent is credited to their principal account and amortizes their loans in a little longer than the time contemplated here—about 25 years. We were told when we started that the thing was impractical; that the people would not stand for it; that they would draw away their loans rather than make these amortization payments. We made it apply to all the old loans, too. On the contrary, they came to us again and again, with the same sort of thing the old farmer did, and thanked us. We never had more than 2 complaints out of some 4,000 or 5,000 loans that were amortized by compulsion. We had only two complaints, and those were justified for reasons I need not bother you with—owing to trust estates, the life tenant not wanting to amortize for the benefit of the remaindermen. But everyone else received satisfaction, and it is still in operation, and we still get very large amortization payments, even in these days, when the law is that we cannot foreclose if they do not make the payment, but we get it voluntarily. It has become a habit with them. I think that is one of the most important features of this bill that I would not sacrifice for anything in the world. It starts the idea and sets the example, which is very necessary all over the country, and more necessary in the city of New York, where I am now engaged, than anywhere else. It sets the example and gets the idea into people's heads that they can, if given the opportunity, gradually get out of debt and have some property that is worth something, that is not encumbered by mortgage.

With your permission I will just go on, in the few minutes left to me——

The CHAIRMAN. Your idea is that with efficient management there need not be any loss by the Government under this plan?

Mr. MILLER. Under this 20 percent proposition?

The CHAIRMAN. Yes.

Mr. MILLER. There will be a loss. I see no reason why there should not be a loss to the Government. From the very best figures I have heard about it, the loss on remedial loans of that kind runs from 2 percent up to 7 percent, but I think the Government has got to foresee some loss. However, it will be very slight under that provision. I think it is worthwhile. There is no use deceiving ourselves and saying that there will not be any loss on these loans. Of course, there will be a loss, no matter how carefully they are selected. But here again you adopt another principle that I think is very important. You draw private capital, private business, into the enterprise. It is not as if you were making these loans directly. You are making them through lending agencies, such as bankers and finance corporations, who are primarily interested in not making a loss themselves. You are guaranteeing only 20 percent. They have

got to be fairly careful to see that they do not lose the other 80 percent. You are going to have interested people who really have an object in trying to pass on the credits.

Again, it sets a fine example of the Government backing up private capital to do the work, instead of the Government doing all the work itself. I like that feature of the bill tremendously. If I had found details that I did not like in the bill itself—and I do not think I have—I would like it immensely because of that example and of that step in the right direction in stimulating the action of private capital to do the work, the Government taking——

Senator COUZENS. When you say that, Mr. Miller, I understand you give wholesale endorsement to title II of the bill.

Mr. MILLER. Yes; I do. I want to tell you about title II, because I think I can throw more light on that than has been thrown on it yet. I have a real knowledge about it.

The last witness was rather discouraging on the subject of national mortgage associations, and I think perhaps not improperly so, considering his affiliation. Perhaps if I were a savings banker alone, and that had been the extent of my experience, I would take the same attitude he took as an insurance man, but I have for years been connected with various trust estates, advising and helping in the investment of small capital in various kinds of loans—women who were left widows and had to be taken care of, and so forth. A great quantity of that capital drifted, in one way or another, into mortgage loans. When I first began operations it drifted entirely into individual mortgage loans, and my office then was really a servicing office for the small lender, who would have $10,000 to $30,000 in small loans, and we collected the interest, watched the insurance and taxes, and took care of it.

Gradually it drifted further into the trust companies, so that I had practically none of that left in recent years, but the money went on into the mortgage business. It went in largely through guaranteed mortgage certificates, where the individual woman, who could not watch her own mortgage, having probably undue confidence in the guarantee-mortgage companies, bought mortgage certificates without much examination as to what property they covered, and was well taken care of, as it seemed to her, until the whole thing broke loose.

Senator COUZENS. Do you think that was a good experience—these guaranteed mortgages?

Mr. MILLER. I can tell you about that. I know quite a lot about it, and I intended to discuss it. In the savings bank where I used to work, which began in 1839, in connection with our operations in mortgages down to about the year 1927, which is the last time I remember anything about it, at that time our entire losses on mortgage loans, running, as you see, for nearly a hundred years, amounted only, as I recall the figures, to about 0.03 of 1 per cent of the loans that we had had during that period. I was interested at that time because at that time, feeling that building costs were high, it seemed to me wise to begin to set up a reserve fund which might lap up any losses that would be occasioned by reason of the collapse of building costs in the future, and after making those figures we decided to set up a reserve fund from then on—I think this was in 1925—amounting to one quarter of 1 percent a year on our mortgage loans,

to take care of any mistakes we might make in appraisal, or any collapse that might take place. We did not have the kind of collapse we foresaw. It was a collapse, as you know, that was perfectly unprecedented, and, of course, my reserve was not as great as it should have been, but the point must be remembered that up to that time, after 100 years' experience, the total loss was less than 0.05 of 1 percent.

It is true we specialized particularly in my day, and have always specialized, in small loans. Out of our $19,000,000 loans all together, our average loan is between $4,500 and $5,000, which is quite different in its result, even in these days, perhaps, from what it would have been if we had been in other things.

But the point I am trying to make in regard to the national mortgage associations is that there are an inconceivably large number of geographical areas in the country where there is more money seeking mortgage investment from the kind of people I have been talking about than there are possibilities of it getting out into mortgages in that location. In the city of Utica, until we went outside and bought our guaranteed mortgage loans, my bank was able to get out, doing the best we could, only between $300,000 and $400,000 a year, and, of course, we had paid off, under our amortization, considerably more than three or four hundred thousand dollars a year, and we had to find outside places to put the money if we were to keep up our average mortgage loans.

Those mortgage companies, even so, would have been sound, in my judgment, and would have gotten through, except you must realize that there was exactly the same sort of run on guaranteed mortgage companies that we had all experienced on banks. People began to be thoroughly frightened as to their money in the mortgage companies, and they began to demand payment of all loans as fast as they came due. I spent any number of anxious hours trying to persuade the people to renew their loans instead of calling them for payment.

Again, if those had all been amortized loans, they would have paid themselves off instead of coming to an end at the close of a 3-year period or a 5-year period, and having to be paid in full. The reason it was not done that way, I suppose, was because the mortgage companies liked these fees for renewal, which I am so opposed to. Renewal fees have been the great enemy of the borrower in the mortgage-loan business and must be stopped, if we have learned anything in this thing.

There is another reason why you must have something analogous to the national mortgage associations. I think they are well set up here. I am not sure how much money they will make. It will be a slow process for the stockholders. That is the one thing I am not quite sure of, as to whether this set-up, with a 5-to-1 basis, gives adequate opportunity for the building up of surplus and gives enough money to the stockholders to induce money to come in. But assuming that is so, without attempting to pass on that detail, I think you have to have something of the kind, because without it you will not draw on the tremendous reservoir of uninvested funds that are waiting around, anxiously hoping for a chance to get back where it will produce a reasonable rate of income, in the meantime getting practically nothing on it. That is not true so much in the large

centers. Those large amounts in the great central banks are not necessarily all waiting for mortgage-investment opportunities, although there is much of that money, owned by trustees, that is waiting for an opportunity to invest safely in mortgage loans. It is scattered all through the United States—money waiting anxiously, where the people do not know enough to make their own loans—waiting for some agency that they can trust through which to make loans. This will give them an agency that they can trust, set up in this way, because it is backed by this guaranty that they can trust, through which they can make those loans; and that is particularly necessary because, in my judgment, a reservoir of institutional money, except so far as the life-insurance companies go, is going to be shut off very largely and is going to stay shut off.

Banks have learned that it is not safe to put 70 percent of their assets, or even 60 percent, in mortgage loans. Savings banks, which have been allowed to put 70 percent of their assets, and have put in 60 percent, have found that with the withdrawal of deposits the percentages increase automatically until they have nearer the 70 percent than they should have, and it will be a long time before they will come back generously and with large funds into the mortgage market.

Senator BARKLEY. Mr. Miller, may I ask a question here? It has been claimed that this mortgage insurance plan, as carried forth in this bill, is practically the same as the prior mortgage guarantee plans or schemes that have been in vogue in different parts of the country in the past. Would you mind explaining to the committee the difference?

Mr. MILLER. One difference, for instance, is the fact that under this bill you can only issue debentures to five times the amount of your capital. There was practically no limit to which they could issue mortgage certificates if they had the mortgages behind them. That was one thing.

Senator COUZENS. You said five times. I understand the bill reads 15 times.

Mr. MILLER. It is, perhaps my mistake.

The CHAIRMAN. The amount of bonds or debentures which the mortgage association may have outstanding at any time shall not be in excess of either 15 times the aggregate par value of its outstanding capital stock or the current value of mortgages held by it and insured under the provisions of the National Housing Act.

Mr. MILLER. That is my faulty memory. I only got the bill last night.

Senator COUZENS. Does it not make quite a difference whether it is 15 or 5 times?

Mr. MILLER. Yes. I think 15 times is as liberal as I should like to see it.

Senator BARKLEY. You had in mind mortgage associations rather than the insurance plan with regard to that?

Mr. MILLER. The guarantee insurance plan is foolproof. I am not even talking about that, because I do not think that has been brought up, really, for debate here. The only question I have about it is that it will operate much more slowly, I think, than anyone thinks. The large New York City banks, for instance, are not interested at all and will not operate under it. I think there will be a

tendency in the up-State institutions to operate under it, and there will be some tendency on the part of——

Senator BULKLEY. Why do the city banks reject it?

Mr. MILLER. For this reason, that they say their kind of mortgage borrowers will not stand for the amortization features. Of course, on the island of Manhattan they have not the individual houses. That is another thing. Their loans are not in $20,000 units. They are more nearly in $100,000 or $200,000 units. But leaving that aside, even if it applied to those loans, they tell me, and the real-estate people tell me, that on the island of Manhattan the borrower is so accustomed to borrowing every cent that he can, and not reducing his mortgage loan, that the borrowers themselves will resist the amortization feature and will not go into the thing. I personally believe that they will in the course of time. I think they will find they have to sooner or later, because I do not think the banks are going to repeat the errors of the past, but I find all the support I have been able to find for it among my own class. They are savings bankers, the country institutions, rather than the large city institutions.

But, going back to these national mortgage associations—because I think that is a tremendously important feature of the bill—with 15 percent they can make money. I was figuring on the back of the bill as I sat here to see whether I thought they could get away with 5 percent, and I thought it was close. With 15 percent they can. With 15 percent and an amortization feature, there will not be the dangers that overwhelmed the old companies. The things that overwhelmed the old companies, even with their unrestricted amount of certificates, were two:

In the first place, there was this process of charging large fees for making the loans and large fees for renewing the loans and, of course, the worse the loan the larger the fee the people would make, and the mortgage companies got their business and their profits by the large fees that they charged. That is one thing that does not appear here, and cannot appear here at all. In the next place, their loans were made for either 3 or 5 years, and were then renewed, ordinarily, for the full amount, and the people who bought their certificates were accustomed to renew their certificates automatically. As long as the certificates were payable, they were very glad to put the money right back in mortgages. There was no reason for having a run on them. These things are going to liquidate themselves by the gradual payment of the funds, and the certificates will be gradually absorbed, and new certificates will come in. You will not be subjected anywhere, it seems to me, to what you might call the run that has overwhelmed mortgage companies. But, with all the bad management and the mistakes that were made in the mortgage companies, I am perfectly sure that, except for the extraordinary extent of this panic, they would have pulled through all right, even at that. It was not until the banking holiday, which was not brought on by them, but came from other sources that you know about—it was not until then that I really gave up hope. Even at that, I expected—and I knew a great deal about their position at that time—I really expected that even with all their mistakes they would get through alive and go on. Nothing was further from my thought than that

there would be the general collapse that there has been in the guaranteed mortgage business. But this avoids those mistakes.

There is only one thing more that I beg an opportunity to say, and that is this: that this bill is general in its terms, which I like immensely. It assumes that you are going to have a reasonably honest and able body of people to operate the Government end of this thing, and it leaves much in the way of detail to be determined by the boards that are created. I am begging for that. I have seen so much more harm done in the course of my experience by legislation trying to make things foolproof, and handicapping good operating men by attempting, in legislation, to regulate every detail, every interest rate, and everything of that kind, that I am thoroughly in favor of these general terms. I have seen so much more damage from that cause that I have seen happen by turning a great amount of discretion over to proper agencies, and then seeing that the agencies are kept proper, that I want to make every kind of a plea I can to this committee to follow, in general, the lines of this bill, which is to my mind one of the finest pieces of legislative draftsmanship that I have come across—and I was for 15 years counsel for the Savings Banks Association before the legislature in New York, and I am familiar with legislative draftsmanship. Follow the general lines of this bill instead of attempting to put in a detail here and a detail there, and handicapping boards under conditions which may be entirely different, when they have to operate, from the conditions which you have in mind when the bill is drafted. You are providing for good boards. You will have devoted men to carry it out, at least during this process, and I am begging for the largest part of discretion and liberality on the part of Congress toward the boards that are set up here.

Senator BARKLEY. Mr. Miller, awhile ago you remarked that you thought the insurance feature of this bill was foolproof. Would you mind going into some detail about that and giving your reasons and reactions?

Mr. MILLER. I meant to emphasize that my reason for thinking that is that you have these features:

In the first place, you have the amortization feature, beginning at the time the thing is put in operation.

You have the lowest depression era of real-estate values in my experience. It is not as if you were making your appraisal and lending 80 percent on the real-estate values of 1929. You are lending 80 percent on the most depressed real-estate values—and I think artificially depressed real-estate values—that I have ever known anything about.

Senator COUZENS. How about the cost of material?

Mr. MILLER. The cost of material is high.

Senator COUZENS. If you lend 80 percent on that, what about that?

Mr. MILLER. I am not afraid of the cost of material, because either we will go back into an era of prosperity, in which case I do not think material will go down, but rather go up, or, if we do not go back into an era of prosperity, other financial things could happen which, in my judgment, will not lower the price of materials.

As to labor costs, I am not one of those who think that labor costs should go down in the building trades, in spite of the fact that it is supposed that they are higher than in any other occupation. As a

matter of fact, that is so seasonal, and the chaps that work at it are so interrupted in drawing their wages that, considering the skill necessary in the building trades, I personally have never been able to see that they were seriously overpaid. Then, with the organization of labor, which is very complete and active in the labor trades, I do not believe the cost of labor will come down.

Senator COUZENS. I am glad to hear you say that, because that is the first encouraging statement I have heard since I have been sitting here all these hours and hearing about driving down the cost of this work under the bill.

Senator BARKLEY. Let me ask you another question. Are you prepared to comment on the fear that has been expressed that these agencies will compete with existing lending agencies of the country?

Mr. MILLER. I have talked with Mr. Bodfish, whom I have known pretty well for some time, and I have read that section of the bill. I did not even know, until I got the bill, that the building-and-loan associations were mentioned in the bill. I do not believe that this will in any way harmfully interfere with the building-and-loan associations, any more than I think it will interfere harmfully with savings banks. I am just as much interested in getting good loans for the savings banks, when we get in the loan market, as anyone can possibly be in getting good loans for the building-and-loan associations. I am an old building-and-loan man myself. I am anxious to hear Mr. Bodfish's views. I did not hear his statement yesterday, and I have agreed to talk to him when I get through here.

Senator COUZENS. Will these national mortgage associations compete with the savings banks, the trust companies, and the building and loan associations, which you say will be anxious to get good loans?

Mr. MILLER. Of course, there is always some competition in that sort of thing, but I think not. As a matter of fact, I think they will be helpful to those institutions. The fact is, as I say that we have great parts of the country, and great parts of my own State, which I know best of all, where we have a supply of money that considerably exceeds the supply of mortgages. If that money, for instance, is all spent in the city of Utica, if all the money that we have is loaned on mortgages in the city of Utica, it would be very competitive to the savings bank there. On the other hand, if it is spread over the country in regions where there is more demand for building and more demand for loans than there is money to supply it under the agencies of these associations set up, then I think it will have, really, a beneficial effect on us.

Senator BARKLEY. The theory is that they would not be set up except in case they were needed.

Mr. MILLER. My feeling is that they are needed. I feel that that is the way to get the reservoir of private capital back into the mortgage market.

I think it will do great good in another way, both to the building and loan associations and the savings banks. There is one thing by which both of us are hurt. We might as well be frank about it. That is by the general depreciation in real estate, which is due, more than any one thing, to the drying up of the reservoir of mortgage money. People cannot buy the real estate that we have had to take

on foreclosure, because there is no mortgage money generally available. There is no market created, and therefore the prices are so low that we would not even be willing to sell at those prices.

There is just one thing, perhaps, that I can add to your knowledge—a little contrary to the information you get from Philadelphia—and that is in regard to the market, and the condition of home building. As part of our savings bank work, you may know—probably you do not—that we have another institution besides the trust company, called the Institutional Securities Corporation, which operates to liquefy the mortgage situation for the savings banks. We have adjoining offices, and although I have no official connection with it, we practically run it as one shop. That is operating in very many millions of mortgages. It has $22,000,000 of old guaranteed mortgages which it has taken over to service for the savings banks at a distance. I spent some time, before coming down here, in cross examination of their best men as to the home mortgages. Those are practically home mortgage loans. They are not the big things.

I asked them concerning the condition of the home-mortgage market in the suburban area around the city of New York. This has no application to the Borough of Manhattan, with respect to which my evidence would be the same as that of the gentleman who spoke about Philadelphia. But in the suburban area, including Queens, Westchester, and Brooklyn, Mr. Lindsey, the head of that organization, who was with me in the R.F.C., and went from there to the new organization, tells me that there are practically no vacancies at present in these relatively small private houses. There are some vacancies in the palaces because people move into the apartments my friend was talking about for purposes of economy. But to my mind the tendency in that is the other way, to get out of the tenements, to get out of the place where you have to live with a stove heating 3 or 4 rooms, and with a toilet room at the head of the stairs, and no bath. The tendency is, among every class of the community, to get out of that and get into the small house where possible. I found it in my own city. It is tremendous, too, in New York, where it has affected the lower East Side to an enormous extent. I think the movement has been in that direction. He tells me that practically every house in that surrounding area—and he and his men are doing that work there every day—practically every house is occupied, some of them with low rent, some of them where they are just letting the old owner stay until they get a chance to sell it, but he said he thought that with the return of prosperity and the further desire of the east sider and others to move into more comfortable living quarters, there is going to be, even in New York, where we thought we were overbuilt, a tremendous shortage of small-home construction. I am anxious to shorten up the time of that recovery and see some advance possible in that direction as soon as the demand requires it.

The CHAIRMAN. Do you not think the capital requirement of $5,000,000 is rather high, in each of these associations?

Mr. MILLER. Not on acount of the overhead. Of course, you will have more associations if you lower it, but, on the other hand, in order to do a good piece of work with these associations you have to

have a relatively large operation. You have to have something that can afford to pay reasonable compensation. They will not be run entirely by altruists after the emergency is over. You can get them, perhaps, to run them now, but the people will want some salaries after this thing is over, and you cannot get the best men in the real-estate busines—and they should be the best men in the real-estate business—to come in on that if the concern is so small that it cannot turn off enough to pay its overhead and pay reasonable compensation.

I am inclined to think that that is about as low as it should be, but I am not an expert on that.

The CHAIRMAN. Mr. Lester.

STATEMENT OF ORRIN C. LESTER, VICE PRESIDENT, BOWERY SAVINGS BANK, NEW YORK CITY

The CHAIRMAN. Please state your name, place of residence, and occupation.

Mr. LESTER. My name is Orrin C. Lester. I live at Scarsdale, N.Y., and my position is vice president of the Bowery Savings Bank of New York City. I might add that I am an officer in what we speak of in New York as the mortgage conference, which is an association of mortgage-lending institutions endeavoring to work toward more standardized practices and joint thinking and joint action with respect to the whole problem of mortgage financing in the city of New York. It is a voluntary association.

The CHAIRMAN. Mr. Lester, have you examined this bill, S. 6303?

Mr. LESTER. Yes, sir.

The CHAIRMAN. If you have considered the plan suggested here, I wish you would give us your views about it.

Mr. LESTER. Mr. Miller, who has had so much better experience in actual practice, and a more seasoned judgment than most of us in the savings-bank business, has made a very complete statement here. We younger fellows sometimes hesitate to follow him, because he usually says about all there is to be said. I think I should apologize, perhaps, for not having a formal statement. I have not, but I am just here to be as useful and helpful as I can.

I have read this bill more than once, and it appeals to me as having very commendable elements, as a general thing. It is obvious, I think, that our mortgage machinery needs to be reexamined. We need to have some new conceptions and new policies and practices with regard to the financing and development of real estate.

I think we would agree that it is a difficult thing to set up the kind of permanent and complete machinery that may be necessary after an experience of this kind, for the permanent needs of mortgage financing, at the time we are trying to dispose of a very bad depression and to put back to work men who are now unemployed, but I should like to say this, that this bill strikes me as having the elements that would be very useful in the direction of doing something to carry out the program of recovery.

I am inclined to think that it contains the factor—the foundation, perhaps—for building the kind of a complete mortgage machinery that we need for the future.

I am not prepared to say that anybody knows at this time just what that complete machinery is, and I think it has to be a matter of gradual evolution and very clear and constructive thinking, but in its general principles, except the matter pertaining to the building and loan associations, I think I would feel that I and the people with whom I am associated in the savings banks are favorable to the bill.

I eliminate from my consideration the question of the building and loan associations because I do not profess to know what the desire of the building and loan associations is and what the need may be for the guarantee of their funds. We have, of course, in our institutions, a guarantee of deposits, and I take it this is designed to accomplish something of the same ultimate and practical purpose.

I am like the rest of these gentlemen. I do not want to take too long a time. The first element of this bill which pertains to the extension of credit for improvement of existing properties clearly is something that, if it is taken advantage of, should be effective, both in giving employment to men, and in starting, in some small degree, at least, the building industry back toward a normal state.

I have two observations with respect to the statement here of the bill. One is that there is a very great deal of property in this country that needs to be improved. We come in contact with it every day because, out of necessity, going through this depression, we have become substantial owners of such property, taken by necessity in foreclosure. We undertake, when we get property that needs improvement, to do it out of our own funds. The great majority of such properties need some attention.

In the second place, the idea of providing this credit through private agencies with the cooperation of the Government seems to me to be a sound principle. In common with many, I have the idea that most of the business of this country must still be carried on by private enterprise, and perhaps the sooner we get to the point where that is clearly understood and the sooner we begin to work toward that principle, the better.

I appreciate the fact that we all want to work in harmony with anything the Government does in its recovery program; but somehow, somewhere, there must be an acceptance of responsibility on the part of institutions and private enterprise generally, to take a substantial part of this load.

Of course, no piece of legislation is of any great practical value unless it can be put into application in specific situations. I am not so sure that I can be very helpful in advising as to how far this legislation may be used. The fact is that I represent the kind of institution that is pretty highly restricted by the law, and pretty conservative. In a great deal of this we could not take any part. For example, we could not make loans of the type specified, in the improvement section of this bill.

Senator BULKLEY. Why not?

Mr. LESTER. We are not permitted to lend on that kind of security. We cannot make a personal loan, except on our passbook. The law of the State of New York provides that mutual savings banks——

Senator BULKLEY. This does not prevent you from taking security, does it?

Mr. LESTER. This would be a personal note.

Senator BULKLEY. Necessarily?

Mr. LESTER. That is my understanding. It is purely a credit agency. It is an effort to extend credit to individual owners of property, on their individual note, without collateral.

Senator BULKLEY. I understand that is permitted, but I did not understand that was required.

Mr. LESTER. I had understood that that was required.

Senator BARKLEY. You could add to the mortgages you already hold, in order to make those loans?

Mr. LESTER. We could, by permission of the banking department; but, you see, we are restricted in the beginning to accept not more than 60 percent of the appraised value, and, as you well know, in all parts of the country it is difficult to get an appraisal that would permit us to go above that.

Senator BARKLEY. But you could, if you had not exceeded the legal percentage upon which you could make a loan, add to such loans as you already have, secured by mortgages.

Mr. LESTER. Yes; and we do that on occasions, and particularly when we take over property. We analyze it. We are working in this respect, and I think we can complement this bill in some degree in the city of New York, because of our efforts to collectively take the position that all property which needs improvement, both as a means of helping put men to work, and as a means of preservation of the property, should be analyzed and improved to the degree that conditions may justify.

Senator BARKLEY. In that connection, have you had any experience that leads you to the entertainment of specific views as to the appraisal situation with respect to property all over the country—whether there is really a need for study to be made of that, as carried out in section 7 of this bill, with a view to getting appraisals upon a more equitable, scientific, and permanent basis? If you have some views on that subject I would like to have you express them.

Mr. LESTER. I prefer not to speak of the country generally, although I have had a little experience outside of New York. I have been there only 10 years. I am completely satisfied that we must revise our whole conception of appraisals and undertake to do it on a highly scientific basis—as highly scientific a basis as possible, taking into consideration, in the determination of the value of a piece of property, all the factors that tend to destroy or to enhance its value, and that in the future the basis upon which we shall judge the mortgage security shall be upon the principle of an adequate and properly distributed income. The conditions that justify that as a security will be determined upon those factors that tend to make that income consistent over the period of the life of the mortgage.

Senator BARKLEY. In other words, instead of taking the cold, abstract value of a piece of property today on a certain street, you will also consider the element of the responsibility of the owner and his income, and his general situation, in undertaking to fix a fair appraisal?

Mr. LESTER. And the entire influences of the community around. I think communities tend to drag down values and end income more than the intrinsic value of the property. We must, of course, look

at the land and the construction of the buildings, and look at the reputation and honesty of the builder, and the owner's responsibility, and all that; but we must go far beyond that. We must interest ourselves in zoning policy. We must interest ourselves in the whole question of the planning of the community, and by all means we must know, by actual factual information, that if a man or a group of men want to build a building there, and they want a loan from our institution or any other corresponding institution, that there can be a reasonable certificate of necessity supplied, in order to show that the building is not going to be filled by tenants occupying other good buildings, which will break down existing investments just merely to satisfy the desires of somebody.

Senator BARKLEY. Is there any likelihood that any such study will be or can be made, in a broad sense, by haphazard organizations that spring up in communities for purely commercial or profit purposes, outside of the guidance of some Government institution or organization such as is provided in this bill—not that it shall impose its opinions upon owners of property or lenders of money, but that these relationships shall be coordinated so as to arrive at something approaching a scientific determination with respect to it?

Mr. LESTER. Answering your question directly, I am sure that responsible lenders will welcome some such arrangement in New York—and I speak only for New York. That is one of the essential purposes of our Mortgage Conference—that we shall come to a position where we will set up standards that will determine the basis upon which we shall judge mortgage security and set up fact-finding agencies responsible to us and financed by us, whereby we can hurriedly get the facts with respect to a particular section of the City of New York.

But that does not say that some supplementary, complementary, or any other kind of influence and service from any central source is not desirable. This thing is so much of a pioneering problem that even with all our experience in mortgages, every community, I dare say, needs help; and you will find many communities throughout the country, speaking broadly, that would not be able to set up such machinery on their own account. It is bound to be relatively expensive.

The CHAIRMAN. Do you lend outside the city of New York?

Mr. LESTER. We can lend anywhere in the State of New York, but our institution's activities are confined to the area of greater New York, Westchester County, and Long Island.

The CHAIRMAN. Do you make many loans on homes?

Mr. LESTER. No. You see, being as large as we are, we have had a large amount of money to put out. We have many homes, but a great many business properties. We have over $300,000,000 invested in mortgages, out of our total assets, and it would be almost impossible for a bank as large as that—it would be quite possible for Mr. Miller's bank, one of the best run banks in the State of New York, to do that. It would be impossible for a bank as large as ours to do it. We like homes.

Senator BARKLEY. What is your bank?

Mr. LESTER. The Bowery Savings Bank, a mutual institution.

Senator BARKLEY. The one with which Mr. Bruere is connected?

Mr. LESTER. Yes. He is my immediate boss.

Senator BARKLEY. I just want to get you identified in the record.

The CHAIRMAN. The next title deals with the mortgage companies, with which you have been dealing to some extent.

Mr. LESTER. With regard to the insurance feature of this bill, if I may return to that for a moment, in principle I am in full agreement with what Mr. Miller has said here with respect to the payment of debts. I do not care whether a debt is made on a piece of real estate, or where it is made. It ought to be made with the intention of progressively paying it off. Personally I think that is a sound basis upon which to make mortgage loans.

The CHAIRMAN. But you do not make them on that basis now.

Mr. LESTER. It has not been the custom in the city of New York to do it, but I think—and I think I speak rather for the larger institutions of New York, particularly savings banks—that the tendency is going to be in the future to insist that there shall be a consistent program and plan to amortize all kinds of real-estate mortgages.

Senator BARKLEY. That would bring about the facility for making more loans and accommodating more people, because there would be a greater turn-over.

Mr. LESTER. Precisely.

Senator BARKLEY. If a man borrows money for 3 years and does not expect to pay anything on it until the 3 years are up, that amount of money is frozen. It is not available for anybody else until the 3 years expire, and perhaps not even then unless he pays it.

Mr. LESTER. It is a sound element of the protection of security. At one time in Pennsylvania I was chairman of an appraisal committee, and I followed the thing very closely in many communities. The old idea of making an appraisal was that if you could find a very high land value and a very low improvement value with that, you had a very sound loan. Of course, that is a fallacy, because if you have a $100,000 loan and $75,000 in land value and $25,000 in buildings, the buildings are not suited to the land, and therefore the loan should not be made at all. In making mortgage loans, I do not think we can assume that the potential appreciation in land values is going to take care of obsolescence and depreciation of buildings and improvements. Therefore we have got to make our amortization scientific, consistent with the depreciation of the improvement, whether it is a home or an income-producing property. That, to my notion, is a sound basis upon which to make a loan on any piece of real estate.

The element in the proposal for mortgage insurance which undertakes to get rid, if possible, of the second mortgage is something that appeals to me very strongly. That has caused a lot of the difficulty in real estate, because of the high cost of getting it, and it has amounted, in many instances, to this, that when the owner got his property entirely financed he did not have much in the way of equity in it at all. After all, we have to remember that the sound basis upon which to make any loan to anybody is that there is some cushion of actual assets. Therefore he ought to have a reasonable equity. If we could somehow reform the methods of making second mortgages I think it would be a desirable thing.

As Mr. Miller has said, I cannot say to you to what extent the lending institutions of the city of New York will use this mortgage insurance. So far as I know, there is no concerted opposition to it.

We are open-minded on this, as we want to be on all questions of the future of mortgage lending. Like the fellow who was to be hung, this experience may be a lesson to us. We think that when we come out of all this we are going to make home mortgages more conservatively and have them all amortized. Yet the time may come when we would want to use some kind of mortgage insurance. That is as much as I can say about that.

With respect, Mr. Chairman, to the mortgage companies, again, I think it is pretty hard to be specific about how much they may be developed throughout the country or how many of them may be organized. In New York City the title-and-mortgage companies, up until recently, up until the panic came on, were the marketers of mortgages. We take mortgages and hold them in our portfolios as permanent investments, but apparently, in a center as large as the city of New York, there must be a way of attracting the capital in the hands and in the possession of private individuals. Therefore, those companies became the agencies to distribute mortgages to the common citizen. It would seem obvious that there must be some machinery set up to take up that thing, now, that has collapsed in those organizations.

While I do not know whether any such agency would be organized, it is my opinion that we must have some means, since our instrument itself is not particularly mobile—we must have some instrument of getting a certain amount of mortgages out into the hands of the public, and when they go out they must be of such character that they will command the confidence of the public, and there will be no question on their part as to whether or not a real-estate mortgage is really a sound security. I am of the opinion that, properly handled and carefully and cautiously considered, and appraised under sound principles of appraisal, real estate, in any good section of this country, is still one of the prime investments of any kind of an institution.

The CHAIRMAN. Can you say whether new savings have gone into your institution faster than they have been withdrawn?

Mr. LESTER. No. There is a tendency in New York City to go out; that is, for withdrawals to be heavier than deposits In my own particular institution, effective during the last quarter, that is, the quarter from January 1 to April 1, 1934, we applied and adopted a new interest policy. It was a reduction in the interest policy, which pays 3 percent on balances up to a thousand dollars, and 2½ percent above a thousand dollars; so that since the first of April or since that policy was announced we have been going out substantially. That is, our withdrawals have exceeded our deposits by a substantial amount. But the last general statement put out at the end of last month, of all the savings banks, showed that very few of them made gains.

I think it should be said that savings institutions represent, in their depositors, the great masses of plain people, people who get their savings out of their ordinary work, labor, and salaries. A great many of these people have had to withdraw very consistently; being out of work or having incomes reduced, they have had to withdraw from our banks rather consistently. We have a bank on the lower East Side, a $220,000,000 institution, in one of the worst areas of the city of New York. These people, representing many of

the poorer people of the city of New York, have been coming in and drawing down their deposits. Many of them started with a substantial amount and have consistently drawn down over 2 or 3 years, until they finally liquidated it altogether. That has been the experience and that has been the source of some apprehension with savings banks during this situation. It was a happy thing that they had their money there. That is, in a sense, what savings institutions are for—to provide means by which they may meet extraordinary situations of this sort; so that the tendency is rather to go out than to go ahead in the city of New York.

The CHAIRMAN. How about the demand for loans? Has that increased any?

Mr. LESTER. Most of the demands we have for loans are not from home owners, who perhaps have a lot or enough money to put in a substantial equity, all of which we would entertain if we had the money, but rather from sources of—I do not say altogether speculative sources, but from sources of commercial and, to some degree, speculative building. There is always a demand for that.

Going back to your question, Senator Barkley, with respect to the knowledge that we have about values; we never have enough knowledge about the supply with respect to the legitimate demand. The lending institutions, with all the problems they have, and the responsibilities which they bear out of this depression, are, and should be, cautious with respect to how much new money they put on new construction, unless they are reasonably sure that it is not going to increase vacancies in the buildings on which they already have commitments. But it is pretty difficult to get a clear picture, backed by real evidence, as to just what the facts are with respect to the need for new construction, in consideration of the legitimate demand.

I am satisfied that there is a great deal of property in New York City and everywhere around this country that can and should be rehabilitated, if we are going to be quite responsible on our commitments and constructive withal. The tendency of a great many of us is to run out of an existing building into a new one. If we have too much of that, of course, we leave the investment in the old one rather flat. But, answering your question, I think that with that very limited amount of demand on the part of people who want to build a home for themselves, and a substantial demand for various kinds of loans, if we had the money we would not know quite how far to go, because we are not quite sure, still, what the actual need is. Have I answered your question, sir?

The CHAIRMAN. Yes. Do you see anything in this bill that is harmful to the building and loan associations? The purpose is to be rather helpful to them, but someone stated the other day that it would put them out of business.

Mr. LESTER. In the city of New York there are not so many. Building and loan associations are not such a large element in the financing of real estate, although there are some very good building and loan associations there. My own feeling is that these mortgage corporations would undertake to fill a gap, if they are organized in New York—to fill in a position that is now vacant and has been made vacant almost entirely by the title and mortgage companies. Of course, you cannot get away from the fact that any agency in the lending business is relatively in competition with

every other agency, I suppose; but it seems to me that they are designed rather to take up that element of the whole picture of the mortgage question, than to compete against my own institution. I do not mean to belittle our situation, because we are relatively large. The competition of any such constructive agency as that would not be felt by my institution but would rather be welcomed if it were organized and carried on on a fine, constructive basis. I am not close enough to the building and loan picture to say specifically that it would or would not be either harmful or helpful, but I am satisfied, as I said in the beginning, that we need to study this whole question constructively and find out what the entire machinery is to effectively carry forward a program of sound, reasonable, conservative investment in real estate and, at the same time, be constructive, in order that progress shall go on, as it should in every community, in the building and real-estate industry.

The CHAIRMAN. What is your judgment about the need for new construction?

Mr. LESTER. As I say, I think I am prejudiced. I think any lending institution will be relatively prejudiced on that, because the institutions hold the bag of existing investments, and therefore it takes a good deal of courage, knowing such real estate as we do and having as many commitments as we have, to initiate the thought that there is a need for a large amount of new construction in this country, in consideration of our position. I think that demand would probably have to come from other sources that do not have quite as large commitments as we do. But I will say this. I have tried to keep open-minded on this and fairly intimate with it. My difficulty has been to be reasonably certain, on the basis of fact, as to just what the demand really is, in consideration of the existing situation.

The CHAIRMAN. Are there any other questions? If not, have you anything else to suggest, Mr. Lester?

Mr. LESTER. I think not.

The CHAIRMAN. We are very much obliged to you, Mr. Lester.

Is Mr. Liversidge here?

STATEMENT OF H. P. LIVERSIDGE, CHAIRMAN EXECUTIVE COMMITTEE, PHILADELPHIA FEDERATION OF CONSTRUCTION INDUSTRIES, PHILADELPHIA, PA.

The CHAIRMAN. Mr. Liversidge, will you state your name, residence, and occupation?

Mr. LIVERSIDGE. H. P. Liversidge; vice president and general manager Philadelphia Electric Co.; chairman executive committee, Philadelphia Federation of Construction Industries; residence, Philadelphia.

The CHAIRMAN. Mr. Liversidge, you examined this bill? Can you give us any light on it? If so, we will be glad to hear from you.

Mr. LIVERSIDGE. Yes, Mr. Chairman. First, I want to state that I am in hearty accord with the requirements of the proposed legislation, but I want to add certain thoughts with regard to the experiences of Philadelphia in its rehabilitation program of last year and indicate, if I may, based on the experiences and observations that

we had, the need for the inauguration of the fundamental features of the bill: First, the rehabilitation or modernization program; the small-credit feature; and then the mortgage features.

Looking back over the experience of the Philadelphia campaign, we now realize that while, in general, it was successful in attaining the objectives that we set out to secure, we would have accomplished a great deal more had we had even a credit feature or had we had the opportunity of cooperation in securing mortgage money during that period.

I would like to indicate briefly, if I may, the results of the Philadelphia campaign. That campaign was inaugurated on January 3, 1933. You will recall it was one of the low spots in the business history of this country. It was carried on aggressively for approximately 45 days. We obtained, in actual pledges, a sum of approximately 21½ million dollars, secured from residents and business-property owners. Besides the total of 24,700 pledges, which came from property owners, there were, in addition, 3,700 pledges that came from business-building owners. I might split that up in another way and say that 77 percent of the total amount of pledges, or approximately $16,680,000 represented repairs and maintenance and remodeling. Six percent, or approximately $1,340,000, represented alterations; 8 percent, or $1,610,000, represented additions; and 9 percent, or $1,850,000, represented new building construction.

It is interesting also to note that in a check-up of the results, while there was pledged 21½ million dollars, a final check-up of results, in which we employed unemployed engineers and architects as well, showed that there was actually 23½ million dollars' worth of work done. That was due to the fact that those who pledged in various amounts, when the work was actually started, discovered that they wanted to do some other miscellaneous work, and the costs in many cases ran above the original figures contemplated.

One of the most striking things was the improvement in labor conditions. I would like to read, if I may, an excerpt from the March report of the Pennsylvania Department of Labor and Industry, showing employment conditions in the larger cities in Pennsylvania for the months of February and March of 1933. This is the statement [reading]:

> The increase in building construction, employment, and pay rolls, however, was confined to Philadelphia, all other areas reporting decreases. Employment by building contractors in Philadelphia increased 16.1 percent in March as compared with February and pay rolls increased 22.1 percent.

Their comment further was:

> This substantial improvement in building employment probably is attributable to the success of the Renovize Philadelphia Campaign.

Further comparison of Philadelphia with other cities in the State during this period indicates that total pay rolls in the construction industry of Pittsburgh showed a 10-percent decline in March over February, Scranton a 9-percent decline, Reading an 11-percent decline, and Erie a 32-percent decline.

The stimulation of business activities was quite pronounced; numerous examples which covered a wide range were in general evidence, including small hardware stores, house furnishing and upholstering shops, and, in particular, those engaged in house painting.

I want to point out the fact, however, that that job, involving an actual release of capital, which went into the normal business channels, of 23½ million dollars, was secured without the slightest aid with regard to credit. In my opinion, therefore, I believe that if the Philadelphia campaign alone had had the opportunity of offering a credit feature at that time the volume of business done during that period would have been approximately double, and that is based not upon an opinion alone, but upon a check-up, in which we knew that people desired to do certain things with regard to business and home improvement, but were unable to do it because they could not secure any credit facilities. We attempted during that period to develop some form of loan corporation, with the idea that if even 5 million dollars were available in the territory it might stimulate our program. We were unsuccessful in doing that because, during the major portion of that program, which occurred from March on, naturally Philadelphia was in about the same position as all other cities with regard to credit or loans of any kind from recognized financial institutions.

The CHAIRMAN. Do you know what the loss was on this 23 million?

Mr. LIVERSIDGE. The only way I could express that, Mr. Chairman, is to say that that money was provided by the property owners, who paid for it from their own resources. Our loss, if you might call it such, was the cost of administering and following through the campaign which, in the Philadelphia district, amounted to about $40,000. Five thousand additional was used to pay for the services of engineers and architects and others who were engaged in a check-up to be certain that the work pledged had been done. I would say that not only did it result in a stimulation of business generally, with particular reference to the building industry—and by that I mean skilled labor, building contractors, largely the smaller contractors, and suppliers of building material—but you may understand that with 23½ million dollars released within a period of a few months, most of that money came directly through the ordinary business channels, and storekeepers, even of the smaller variety—not those directly connected with building supplies—had a very remarkable upturn in business for a brief period.

I would like also to invite your attention to the fact that the campaign was necessarily one in which all, or almost all, were volunteer workers. We had about 7,000 men and women.

I might say that the women's organizations did a very fine job. We regarded it as a sales job pure and simple, and I would say that this feature of this program must be looked upon on that basis. It is a selling job, in which the civilian groups throughout the country should be vitally interested—interested in their own community and interested in the fact that here they have an opporunity of stimulating business in their own territory.

We had the usual objections to the general plan. We had all the pessimistic features that are thrown around the inauguration of anything of that kind. I would say to you that the results of that campaign were so conclusive that even our financial institutions, at the expiration of the campaign, expressed at least the thought that if they had realized that it would produce the results that it did, some means might have been found to have aided it, so far as credit was concerned.

I would like to close, therefore, by making this general statement. First, I believe that there is the gravest necessity at this time for giving business generally some assistance and some impetus. There is real necessity for an improvement in the psychology of people generally. This plan will, if administered properly, and if it receives the support of the civilian groups in the various parts of the country, undoubtedly aid materially to that end.

I would say, therefore, that the program and the features included in the proposed legislation are well-balanced insofar as a really permanent, constructive program is concerned. First, we do need the initial stimulus of something that will get our building construction, labor, and suppliers of material on the way to more successful business. That, I believe, the rehabilitation program provides. I would say, however, that if you are to stop there, and if the credit features are not applied, or the mortgage features are not included, you will find that there will be a general—shall I say, ballyhoo? There will be a quick stimulus, but there will be a resultant let-down at the termination of the rehabilitation or remodeling program.

With the credit feature incorporated, you will find that there will be continued a larger percentage of building construction and a larger volume, in point of dollars, than if that credit feature were not included.

Having started the program, therefore, on this small and miscellaneous building construction, then your important credit features in larger amounts, and the major features of this bill will, in my judgment, take the place of the initial spurt of, say, 6 or 8 months, and should provide the base on which we can see a continuing development of increased building programs in this country.

I am glad of the opportunity to express, in general, these thoughts, for they have been the result of our observations in the practical administration of a program in one of the major cities of the country. We know now that if there had been mortgage features available, even if the small credit features which are included in this bill had not been included, there would have been inaugurated in Philadelphia a building program which was estimated then at over $100,000,000, ready and waiting to proceed, but without the ability to do so, because there was no mortgage money available to carry on.

That completes my statement.

The CHAIRMAN. That is a very interesting statement. We are very much obliged to you.

The committee will endeavor to go on at 2:30 this afternoon. We will adjourn now until 2:30.

(Whereupon, at 1 p.m., Wednesday, May 23, 1934, a recess was taken until 2:30 p.m., of the same day.)

AFTER RECESS

The committee met at 2:30 p.m., pursuant to the recess.

Senator WAGNER (presiding). The committee will please come to order. Mr. McAvoy, while other members of the committee are not present at this moment, some will certainly come in later, and others will read your statement and in that way will become acquainted with what you have to present.

Mr. MCAVOY. All right, Senator.

Senator WAGNER. Suppose you first give a little of your background, so that we may have it for the record and may recognize your experience as qualifying you to testify on this matter.

STATEMENT OF D. E. McAVOY, SECRTEARY OF THE HOME MORTGAGE ADVISORY BOARD, NEW YORK CITY

Mr. McAVOY. Mr. Chairman, I am secretary of the Home Mortgage Advisory Board, which is a volunteer body organized early in 1932, headed by Mr. Frank A. Vanderlip, and which was instituted at that time by Mr. Charles A. Miller, former president of the R.F.C. It is a volunteer organization that is cooperating with the Reconstruction Finance Corporation in the second Federal Reserve district. I am also chairman of the joint home loan committee of metropolitan New York, organized last week, and which is a committee composed of the majority of the chambers of commerce and real-estate boards and mortgage interests.

In order to save the time of the committee I will, if I may, present for your record the names of the members, of the joint home loan committee and their organizations from this clipping from the Herald-Tribune of May 20, 1934.

Senator WAGNER. All right. It may be made a part of the record.

(The data furnished are as follows:)

(From the New York Herald Tribune, Sunday, May 20, 1934)

DRIVE LAUNCHED TO WIN MORE DWELLING LOANS—JOINT COMMITTEE ORGANIZED TO PRESS WIDE CAMPAIGN FOR ACTION BY CONGRESS

A joint home-loan committee was organized last week to urge Congress to approve additional home-loan bonds.

Joseph W. Catherine, president of the New York State Association of Real Estate Boards, emphasized the need of additional bonds and stressed the important part that the act was playing in general recovery, particularly alluding to the tax payments that it was effecting.

The meeting also was addressed by Orrin C. Lester, vice president of the Bowery Savings Bank and secretary of the Mortgage Conference, representing the major mortgage interests; George A. Porter, first deputy superintendent of the banking department of the State of New York; and D. E. McAvoy, secretary, Home Mortgage Advisory Board.

Mayor Fiorello H. LaGuardia is in sympathy with the move to forcibly impress Congress with the need of immediate action. The mayor sent the following communication to the meeting:

"Investment in the small homes of our country is the safest and soundest of all the relief appropriations of our Government. The only way to carry out the full intent and purpose of Congress and the wish of our President is additional appropriations, lower interest rate, and a liberal construction of the law."

The joint home-loan committee will organize several hundred associations and organizations in the metropolitan district to petition the President and Congress to authorize at least 2,000,000,000 additional home-loan bonds and to include 10 percent for repairs and modernization, as in the present act.

The executive committee nominated was: Philip A. Benson, president National Association of Mutual Savings Banks; George W. Cassidy, president Queensboro Chamber of Commerce; Herbert L. Carpenter, president Midtown Club of Brooklyn; Joseph W. Catherine, president New York State Association Real Estate Boards; Kenneth Clapp, president Westchester County Real Estate Board; Robert D. Elder, vice chairman of the Home Mortgage Advisory Board; Bracton Goldstone, president New York chapter American Institute of Appraisers; Frank Ledwith, president Brooklyn Real Estate Board; Orrin C. Lester, secretary the Mortgage Conference; William MacDermott, chairman

mortgage and finance commission, Long Island Real Estate Board; Frank O'Hara, president Long Island Real Estate Board; Ray Palmer, special advisory Long Island division Home Mortgage Advisory Board; A. J. Swenson, chairman appraisal division, Long Island Real Estate Board; Louis C. Wills, president Brooklyn Chamber of Commerce; D. E. McAvoy, secretary Home Mortgage Advisory Board, also nominated chairman of the joint home-loan committee.

It was also decided to vigorously prosecute neglected modernization permissible under the Home Loan Act. Such distress cases would not be eligible as a good "credit risk" to qualify under the new proposed home renovizing finance plan just announced by President Roosevelt any more than the distressed mortgage cases could possibly qualify either as to risk or coverage by the 60 percent loans proposed on existing structures through the insurance mortgage plan announced in the same program.

Senator WAGNER (presiding). You may proceed with your statement.

Mr. MCAVOY. I represent primarily the home owner, the great unorganized group, as a volunteer without fees or charges to home owners. I feel I represent as well every other interest in the mortgage world, because equity is the base of any moves I have made in the past or will make in the future. I personally have contacted during the past several years, either personally or through my efforts in the Second Federal Reserve District, over 15,000 home owners in mortgage distress, and through radio broadcasts, either by Mr. Vanderlip or myself, have had letters from throughout the Nation from thousands of people, covering every State in the Union, which has given me an unusual cross-section in making my surveys.

First, Mr. Chairman, I might say that in view of the fact that I only received a copy of the bill on Friday evening last, my remarks necessarily will be without the full approval of my organizations, and much of it will be said as my personal opinion, therefore I would state that I have been a home builder since 1901, and particularly since the World War, in the matter of economic low-price housing. I would particularly speak of 1923, 1924, and 1925, and in the area of Queens I sold some 6 or 8 million dollars worth of small homes. It is primarily to service these customers that I have this deep interest in this bill, to improve the safety of home ownership and the mortgage business so that I may build more homes and sell them. But I should like to do it on a sound basis.

Now, Mr. Chairman, if that will suffice for my qualifications I will proceed to a discussion of the bill.

Senator WALCOTT. Mr. McAvoy, are you interested in any contracting business?

Mr. MCAVOY. No. Of late years I have devoted myself almost entirely to this work.

Senator WALCOTT. You have no furnishings business or contracting business?

Mr. MCAVOY. No, sir. I have conducted a general real-estate business of late years. For years I have qualified as an expert appraiser for court work, such as condemnation proceedings. That has been my chief occupation of late.

Senator BULKLEY (presiding). You may proceed with your statement.

Mr. MCAVOY. If I might read a short brief that I have prepared which outlines the viewpoint I have of the bill as a whole, then I

should like to refer back to various items of the bill which I will not touch on in detail in this reading.

Senator BULKLEY. All right. You may go ahead.

Mr. MCAVOY. My principal objections to the National Housing Act as introduced, is that it encroaches upon, and unless materially revamped, will feed heavily upon the integrity of home ownership, invalidating as well a most important section of the Home Loan Act of 1933.

Its major injury to home ownership lies in title II, permitting the unlimited creation of 5 million-dollar national mortgage associations, and permitting them to purchase foreclosed homes.

Under title III, such cooperative banks could insure these mortgages up to 20 percent of the aggregate of the loans. The act further permits these mortgage associations to sell to the public bonds or debentures to the extent of 15 times their outstanding capital stock, or the current value of mortgages held by them and insured under the provisions of the act. Under this insurance plan with governmental sponsorship, such offerings will find as eager an investment field as guaranteed mortgages once did.

The only way today that the holders of huge numbers of foreclosed homes, from which unfortunate one-time owners have been evicted, can refinance, for it is impossible to resell without an extended mortgage, is to find the former owner, so that an application for redemption can be made to the Home Owners' Loan Corporation. The act as just amended has broadened the scope of this benefit, including homes foreclosed since January of 1930.

Under this redemption benefit it is imperative, I believe, as a a matter of social justice to afford protection to foreclosed home owners, the most of whom are as yet unaware of their privilege.

I believe it to be a matter of national duty to effectively prevent any such Government refinancing, either directly or indirectly, unless suitable safeguards are established to carry out the intent of our President and Congress in regard to the preservation of home ownership in a time of national distress.

Its second major offense against home ownership lies in title I, permitting the Home Credit Insurance Corporation, under the renovizing plan, to similarly insure accounts up to $2,000 for repairs and modernization to buildings other than homes; also to insure amortized mortgages and like liens on other buildings than owner-occupied homes, the bill stipulating as eligible mortgages on low-cost housing projects as well.

This could include flat house construction of the slum-clearance type. Practical men conversant with housing and aware of the rental limitation in slum areas, know that such housing cannot be erected, under present and still rising building costs, without eventual heavy loss unless a subsidy is provided in the way of capital grants or interest reduction to a point not exceeding 2 percent per annum. Nevertheless, insured bonds would readily sell, that is, insured bonds on such construction would readily sell under Government sponsorship.

With such predeterminable losses—and it will be conceded that losses for renovizing will occur more frequently where open credit would be granted on buildings other than homes—it can be seen that the heavy rates of insurance, occasioned by these higher risks, will

burden the home owner, who will thus be taxed yearly, at a moment when the present real estate taxation is threatening their destruction.

I am not opposed to Federal aid in regard to mortgages or renovizing of other structures than homes. In fact, I have contended that it is the only solution for the Nation's mortgage problem, aggregating some 45 billions of dollars, which is too badly involved, complicated and vast for the city or State to solve it.

But, likewise, I have contended for the past several years that the handling of home mortgages should be unconditionally divorced from other mortgage solutions. The superior and dual nature of collateral that homes offer, warrants more generous terms being soundly granted than could possibly be given to other properties. The moment they are combined the burden of losses will fall upon the already overburdened home owner.

The crying need right now for the best good of the entire mortgage world is that Congress immediately appropriate additional home loan bonds to an extent of at least $2,000,000,000, with 10 percent for repairs and modernization, as in the present act. It is a vital need, for the Home Owners' Loan Corporation now has applications for over 4 billion of dollars, and new distress cases are eventuating daily as the savings of the unemployed become exhausted. The vast broken-down guaranteed-mortgage situation is yet to be heard from as to its home needs because of its involved affairs.

I stress that point for the greatest good of all mortgages, for the consequential benefits from the Home Owners' Loan Corporation extend far beyond the home world. In liquidating loaning institutions it permits them to better grapple with mortgage problems not eligible for bond conversion.

I have often said, Senator Wagner, and you will recall that when I appeared in the hearings on the Home Owners' Loan Act in 1933, I said that this feature would do the greatest good in the matter of the recovery program, and I am now seeing evidence of it, and in addition I am hearing it from almost every section, which gives proof of that statement. I was telling this yesterday to its chairman, the honorable Mr. Fahey.

Unfortunately, insufficient bonds have retarded a liberal enough allowance for repairs and modernization. It is in the distress cases that the major field for stimulation to the building trades lies, for only there is there any great accrual, and it is there that modernization for income purposes is so vitally needed. Besides, such work employs a higher percentage of labor, labor averaging 60 percent, material 40 percent. In new construction it is about reversed. If additional bonds are appropriated now, the 400 million dollars then available for such work would far exceed what renovizing would result from the proposed National Housing Act in the next year, certainly as far as concerns the home world. Those owners who can meet the credit requirements have not seen real distress and have kept their homes in fair condition. Certainly distress cases could not qualify on a credit basis.

These objections should not indicate that I am opposed to the Insurance plan, for I advocated and discussed a plan at some length last summer with you, Senator Robert F. Wagner, a devoted sponsor of the Home Loan Act of 1933, that embodied the formation of mutual guarantee companies on a national basis, with branches in every

State. I attach a release for record with a copy of your telegram to Senator Wagner of September 18, 1933, regarding this insurance idea. But they were to be noncommercial and distinctly for the benefit of the home owner. The plan, naturally, is workable in the balance of the mortgage field, but I feel that home mortgages should be kept divorced and separate, just as interest, terms, and general—should differ from other mortgages—for a different set of economics govern each class.

(The release and telegram are printed at the end of today's proceedings.)

At a meeting last week of the majority of the real estate boards and chambers of commerce in metropolitan New York, a joint home-loan committee was formed, of which, as chairman and speaking for numerous home-owner groups as secretary of the advisory board. I am authorized to unqualifiedly press for this appropriation of additional bonds at this session as being of paramount importance to the home and to the entire mortgage world.

Now, other points on the bill I should like, if you care to have me do so, to run through it in order to give you or viewpoint in more detail.

Senator BULKLEY (presiding). All right. You may now go through the bill.

Senator WALCOTT. I take it from your statement that you are opposed to this bill as it is, and unless it is considerably amended.

Mr. MCAVOY. Yes, as it is. But would suggest amendments, as I am in favor of it on general principles.

Senator BULKLEY (presiding). You may go ahead with your statement.

Mr. MCAVOY. Now, I will take up the bill, page 4, section 3, title I. Renovizing; insurance against losses aggregating 20 percent of credit advances; no collateral; interest rate and terms to be fixed by the board.

From a reemployment angle and as a business stimulant it will not be very productive, I fear, in the near future. The demands of a strict credit standing in lieu of collateral security is not practical in a depression period. It will be like the present bank credit—huge funds available; but those who can qualify as borrowers do not wish to borrow because of the uncertainties.

As a former builder, many years ago, doing a large repair business, I would not extend long-term credits, even on a 20-percent safeguard, without collateral security.

Averages will show that where a person's credit still ranks well, that at no time since 1929 has he known extreme distress. This type of person has kept his properties in fair condition. Therefore it is obvious that the renovizing plan in the National Housing Act touches a minority market, one not likely to avail itself heavily unless liberalized, by either consumer, contractor, or intermediate financial units.

The unknown terms, conditions, and restrictions that may be imposed by the corporation under section 3 of the bill would still have a further bearing on retarding any extensive use of this provision.

As Mr. Miller mentioned this morning, it would move slowly, and education would be required on the part of those extending credit. and——

Senator BULKLEY (interposing). Do I understand you correctly that your criticism of this bill is that it just won't work, that people won't borrow money that way, and that people won't lend money that way.

Mr. MCAVOY. I think it is going to be very slow and represents the minority field for the moment. The repair and modernization in distress cases under the Home Owners' Loan Corporation is the majority market. I am recommending that that be extended to $400,000,000, and that it be vigorously prosecuted.

Senator BULKLEY. Do you mean without any change of language of the Home Owners' Loan Act but simply by providing a larger amount of money?

Mr. MCAVOY. I am recommending that we have $2,200,000,000 additional in bonds so that they will not hold back on repairs and modernization in order to try to make their 2 billion dollars cover 4 billion dollars but to go ahead courageously and at once with sufficient bonds to meet all distress cases, because the new National Housing Act would not be able to take care of all distress cases anyhow.

Senator BULKLEY. What I do not understand in your remarks is this: Are you proposing a change in the authorization to the Home Owners' Loan Corporation or simply an enlargement of the amount?

Mr. MCAVOY. I am proposing simply a doubling of the present amount of bonds and of the purposes to which they apply. The recent amendment as to modernization covers that phase.

Senator BULKLEY. It only permits loans for modernization to those who are otherwise qualified to borrow from them.

Mr. MCAVOY. That is true. What I want to bring out here is that I consider your majority market as one applying to me, as a contractor, if I were going out to work and somebody would finance the work. I wouldn't go to the people who could qualify as good credit risks. They wouldn't have much work to do. There is 4 or 5 years of intercession work in distress-mortgage cases.

Senator BULKLEY. You think a lot of these people that are in distress on home loans are people who ought to make repairs and renovize their properties?

Mr. MCAVOY. I think the policy of the Home Owners' Loan Corporation should be totally changed. Instead of holding back and trying to make as few repairs as possible they ought to vigorously prosecute the plan of making repairs, ought to have men go out and say to the home owner something like this: If you will put a bathroom in there, and divide this off, you can get $30 a month, and that will carry you through. I have done that many times myself, and I know that it works. That I say is where the big field at the moment lies.

And the next point is this: Senator Wagner, you know when my brother and myself built your home some 20 years ago at Woodmere?

Senator WAGNER. Yes.

Mr. MCAVOY. When business was bad we would go to the poorest neighbor in a community and would give him a low figure and terms in order to induce him to make repairs, and then the more prosperous ones would come along and see it and be ashamed to see their poorer neighbor fixing up, and we would thereby get five or six jobs as a result of that one job.

Senator BULKLEY. But you could not do that if the owners were without any resources.

Mr. MCAVOY. Well, I feel that this would be the situation: If you put out sufficient bonds to take off this curb in policy on repairs and modernization in the matter of the Home Owners' Loan Corporation, and if you will vigorously prosecute that matter you will get a tremendous accrual in repairs from people who can pay for it through the power of visual example close to home. I am not opposed, however, to the renovizing plan in the act as proposed, except to point out that I do not think we want to look for quick results from it as it now stands.

But I do want to say that I object to other buildings being included in the insurance on such risks, because I feel the home owners' risk under the renovizing plan is a much finer risk than that on business buildings, apartments, and things of that sort, where they are dropped the minute the income is insufficient to carry. On the other hand, the home owner will stick. I think the home owner should have a separate insurance fund. I feel that the home owners' surety, both in the case of new financing and existing construction, should be totally separated from low-cost housing.

Senator BULKLEY. Well, of course this is not insurance in the sense that the beneficiaries pay for it, but is a guaranty by a Government corporation.

Mr. MCAVOY. Yes. The beneficiaries will have to pay for it in some manner through the interest rate.

Senator BULKLEY. No. I do not so understand it.

Mr. MCAVOY. Well, that is the way I understand it.

Senator BULKLEY. Where do you find that in the pending bill (S. 3603)?

Mr. MCAVOY. I would say that it comes under the Insurance Corporation, in title II of the bill.

Senator WALCOTT. I think the borrowers have to pay for losses.

Mr. MCAVOY. Yes; they have a premium to pay.

Senator BULKLEY. Well, let us stop right here and get that straightened out. I will ask Mr. Watson to explain that point for the record.

Mr. WATSON. I should like to say as to renovizing, the cost of the insurance is undoubtedly borne by the Government. It is not borne in any part whatsoever by any of the people who borrow in the renovizing campaign, the theory being that if the Government could be paid by that guaranty fund getting out five times as much money in the work, it will be worth it. The home owner does not contribute a cent toward that cost, Mr. McAvoy.

Mr. MCAVOY. I thought the insurance clause covered that.

Senator BULKLEY. That is a different matter, in title III of the bill. There is provision for a separation into groups as to classes of risks. Am I right about that, Mr. Watson?

Mr. WATSON. That is right, in the insurance on mortgages. There is a division so that the home owner will be entirely separated from the low-cost housing project as to mortgage insurance, and he will not carry it.

Mr. MCAVOY. Well, then, that answers my objection that the home owner should have a lower risk, and undoubtedly it will run lower.

Senator BULKLEY. I think it will according to the way the bill is set up.

Mr. MCAVOY. I do not think the bill separates that. It leaves the rate open.

Senator BULKLEY. I think it is a little difficult to find it, but there is provision for separation according to the characteristics of the risk.

Mr. WATSON. While it is not in the bill, the committee have been furnished with the differing rates.

Mr. MCAVOY. Well, that answers my objection on that score.

Senator BULKLEY (presiding). Very well. You may proceed with your statement.

Mr. MCAVOY. I will pass now to renovizing. I am heartily in accord with that, except that I should like to see broadly liberalized the policies of the Home Owners' Loan Corporation in that field, for practically all are cases which cannot qualify under the renovizing plan. I know the distress cases would not qualify as credit risks.

Senator BULKLEY. Then you would let them just add that amount to the amount they owe the Home Owners' Loan Corporation?

Mr. MCAVOY. Yes, sir.

Senator WAGNER. Do you mean to that individual that you think needs funds to make repairs who would be financially so situated that the lender would not regard him as a fair risk?

Mr. MCAVOY. He would not consider him at all.

Senator WAGNER. And he would have to come under this plan for an umbrella.

Mr. MCAVOY. Yes, sir. My theory, as you know, Senator Wagner, has been this: That half of the homeowners helped by the Home Owners' Loan Corporation cannot come through. We do not know what half that is. And the only way out will be to sell, not foreclose, but sell. After they have had their gambling chance and recovery has come, some cannot keep their homes and they have to sell. Now, unless the house is modernized it will not be salable.

I will now pass from the renovizing plan because on that point I am entirely in accord with the insurance factor cleared up.

Now, under title II of the bill, national mortgage associations, my recommendation is the same recommendation that I make before your subcommittee last year, Senator Bulkley. That was that five or more homeowners could be permitted to form a mutual organization, the same as in the case of the Farm Loan Act, qualifying in the way of appraisals as those farm organizations can qualify. And in their case they put up their 5 percent of capital, I believe. That they have if they have not been able to finance themselves through other mediums then the Home Owners' Loan Corporation would advance sufficient fully guaranteed bonds to meet their obligations up to appraisal limits.

I would further suggest that any mortgage associations should be made mutual nonprofit noncommercial corporations.

Perhaps the men serving on them would be paid a salary, but it would not be primarily from the angle of profit. The history of the land banks show the dangers in profit-making mortgage arrangements sponsored by the Government, for the color of the Government security behind it permits it to be easily driven too far and come to grief.

Senator BULKLEY. You are speaking of the difference between the Federal land banks and the joint-stock land banks.

Mr. MCAVOY. I am speaking of the joint-stock land banks, where pressure was brought upon them to have a farmer borrow to buy beyond his means. I believe we have to think very seriously if we are to learn by past events, such as the guaranteed-mortgage situation, which is a horrible lesson we should learn something from.

I think in our renovizing plan we benefit solely if it wisely places money in the hands of individuals on credit. I found in the great percentage of the trouble cases that came to me, the final wreck came after they were able to borrow some money on a financing plan. They had a surcease from their trouble for about 30 days, and paid a pittance on their taxes and interest, and then were confronted with the new problem of monthly repayments. And that was their final wrecking. I think we have to weight the installment selling very carefully.

I shift now from the mortgage problem over to renovizing, and we could cite radio selling and installment overselling in general as examples to seriously weigh.

Senator BULKLEY (interposing). Insofar as your argument goes it applies to the whole renovizing section of the bill, does it?

Mr. MCAVOY. I mention that with caution. I think it is something we have to regard with thought. I do not mean to say not to do it but that we have to think of all these things. I think that is so in the formation of these mortgage companies, because if you will turn to page 16 of the bill, section 209, you will see that it provides:

> Subject to reasonable rules and regulations as the Federal Home Loan Bank Board shall from time to time declare, any national mortgage association shall have full power to, and may, manage properties purchased or turned over to it as the result of foreclosure proceedings.

Now, that reads to me, if I am not incorrect in my interpretation of it, and I asked the vice chairman of my board, Mr. Robert D. Elder, a New York attorney of note, to tell me if I were incorrect in my reading of it, and he said not, that, for instance, a guaranteed mortgage company of New York could organize a $5,000,000 guaranteed national mortgage association, and then could purchase a lot of foreclosed properties, say $50,000,000 worth of foreclosed properties, and refinance it, and put out debentures, and sell them to an eager investing public and indirectly repurchase this wreckage that they created, when it should more properly find itself under better management.

My principal argument and my fear on that is not alone the bad economic situation to be created but I fear this: I have been trying to educate the public that the Home Owners' Loan Act of 1933 covers the redemption of homes, and it has been amended, as you know, to include those foreclosed as far back as January of 1930, and in spite of the fact that that has been printed people do not generally know about it. People have been evicted from their homes and have given up hope and often do not read the papers on a subject so sore to them.

I have seen numerous efforts to start movements to amend the Home Loan Act of 1933 to permit repossessed homes to be rennanced through the Home Loan Act to new buyers, and I have protested vigorously to these people every time I could get in touch with

them. I have said: You mortgagees who have foreclosed these homes must take the trouble to find the old owners. Look the old owner up and get him back, even if it costs you some money. If you have to pay something to get him back, get him. It means a rehabilitation of that man and his family. It represents restitution.

I have urged that the Government should have community bodies that could do that kind of work. I have done some of it myself. And, Senator Wagner, you know of a case that you figured in and I gave as much attention to that case from the time the man came into my office from yours, until it was finished, as I have given in the closing of a $50,000 contract.

Senator WAGNER. And everybody was a volunteer who was connected with it.

Mr. McAVOY. Yes, sir. Now, there is just one case, but if I had a staff I could do it by the thousands.

They say there is no large amount of foreclosures but there are. Take Mr. Fahey's figures. I looked over the number in Queens County, and out of $10,000,000 of home mortgages I found two and a half million dollars were in foreclosed homes. And there was a case of $5,000,000, and the man was writing circulars to holders of certificates that they expected to convert them into home-loan bonds. I said: "If you succeed, where will you get the money?" I said: "There are obligations of three and a half billion dollars." He said: "No; until I get the consent of two thirds of the certificate holders I cannot do anything."

Now, under the provision of page 16 of the bill, one of these national mortgage associations could turn around and purchase those foreclosed homes and then sell 15 times in debentures against them of Government-sponsored and insured mortgages. I feel that that is something that could absolutely be stopped.

Senator BULKLEY. Have you an amendment to suggest there?

Mr. McAVOY. This one. I would make the proviso that before a foreclosed home could be refinanced under that insurance plan, satisfactory proof should be furnished by the titleholder that he has sought the former owner, with an affidavit from the foreclosed home owner that he does not care to avail himself of governmental-mortgage aid. If the owner cannot be found, and I presume there will be cases of that, then reasonable methods can be established to advertise, through post offices of the United States, possibly, or other means, and after a certain lapse of time then permit governmental refinancing.

But I would like to see that act amended so that these companies should be non-profit-making commercial mutual institutions; that we should not permit profit-making institutions to sell debenture bonds and repeat any performance that might approach the guaranteed mortgage-certificate debacle.

On page 6, section 5, I would like to go on record that selling debenture bonds on low-cost housing projects in slum areas will be certain to carry heavy losses; that under existing rents available in slum areas you cannot build today, under construction costs, and come out; that certain construction must be done by a capital grant or an interest rate not to exceed 2 percent.

And I think this: that it may create a moral obligation on the United States Government if they permit debenture bonds sold, and there are heavy losses, and the insurance does not cover it. And this would carry discredit to an otherwise sound plan.

Senator BULKLEY. What is your specific suggestion—to cut out the low-cost housing part?

Mr. MCAVOY. No; I would not say that. I think that it ought to be perhaps confined to homes that would not exceed four families. Personally, I think that the greatest thing that has served this country through this strife and has kept down troubles, serious discontent, has been the great home-ownership movement that took place since the war. It has been, I think, the greatest stabilizing force to orderly government. One of the objections to slum housing is that you put up enormous buildings, somewhat flashy and in wretched territories, and you do not give the children light, air, or better environment.

Senator WALCOTT. Cheap construction.

Mr. MCAOY. Cheap construction and the flashiness quickly leaves it, because that is a surface situation to cover the moves necessary to get it to a low cost, and all you have done is to rebuild slums.

My idea of slum clearance is to build little homes along the subsistence-housing idea. I hate the word. I would rather call it "liberty homesteads." I have suggested that name as a substitute for it. They should be built in nearby territory. Transit conditions today have changed. The automobile and auto bus have completely altered the old situation which originally caused cities to build their slums. That original need of nearness to a center is gone. There is talk and action as to a decentralization of industry today that further warrants my recommendation and I would like to advocate that low-cost housing be entirely confined to 1-, 2-, 3-, and 4-family houses built primarily to eventually sell to a home owner.

Senator WAGNER. Where the housing area, as you call the slum area, becomes so uninhabitable, then what you do—have the public authority condemn the houses and remove them altogether, convert them into parks and things of that kind?

Mr. MCAVOY. Demolish them, convert them into parks, and recapture them to make what so frequently they should have made in the beginning. There are not parks enough in the congested district.

Let me tell you, Senator, regarding a home-owning movement that I was so active in in 1923 just outside of Manhattan. I used to go into the tenement district on the East Side, and I would find somebody that was ready to make the agreement to move. He was so grateful for the chance that he insisted on giving me all the money on the contract. They were so grateful leaving that territory that maybe they lived 15 years in to make that money. And they left there, and they left a chance for a better abode to somebody down the line. That created a vacancy. Somebody down the line in a worse habitation got that better thing. So, as you demolish the poorest you merely meet a decreased population, and you know Manhattan's population has decreased tremendously through that movement to the suburbs; and this applies all over our country because of improved transportation.

Senator WAGNER. Yes; decentralization.

Mr. McAvoy. If you move those people, then there is a better selection all the time at lower rents. There is an economic filtering there. Then if you demolish the things, in many cases there is really a need for business in some of those territories, don't you know, Senator, in many of the cities. Certainly they need parks and playgrounds badly, too.

Senator Wagner. Yes; there is a shortage of parks.

Mr. McAvoy. And I saw one of these schemes that was laid out for slum clearance and they said they were providing for the children, and they had planned a 10-story structure, a tall, towering building built on stilts to provide a playground underneath. The children would be better off in the street with the dangers of the automobiles. At least they would have a little sun and air. Here you were putting them in a literal basement to play. And that is poor business, I think. That is not better housing.

I would like to limit that to houses not to exceed four families and built primarily to sell eventually, even if rented in the beginning.

Senator Walcott. Of course, that would apply particularly to the large cities. Would you put any restrictions on there as to size of the city? Because that is where you find your worst slums invariably.

Mr. McAvoy. I would tend toward the demolishment.

Senator Walcott. Yes; I agree with you entirely, but how are you going to express that? Do you think that your ground rent would be so high in a city that if you put a four-family house up it would take care of it?

Mr. McAvoy. Frankly this: As far as a low-priced housing is concerned I am convinced as a builder that it cannot be done without capital grants, without subsidies with interest at 2 percent or less. It cannot otherwise be done. Therefore, I do not approve of selling debentures to the public under any insurance plan that looks like a Government proposition and later the Government, maybe 10 years from now, being forced to say: "This seems like a moral obligation of ours. We should not have sold them under the guise of an insured item."

Senator Walcott. It would be an instrumentality of the Government, just as your joint-stock land bank.

Mr. McAvoy. Yes; but your ignorant investor would think that associations are permitted—we must remember high-pressure selling methods if profit-making—it was a hundred percent guaranteed.

Senator Walcott. Yes; there is a moral obligation there.

Mr. McAvoy. I don't think we ought to go into that. I think where slum-clearance housing is an absolute need it has got to come through a subsidy. That is the only sound way it can be done. We have had much talk about it in New York, and that is all we have had as yet.

Senator Wagner. Would you prefer a subsidy, or would you rather see the municipality doing it itself?

Mr. McAvoy. I think under the present situation of unpaid taxes that the municipalities are going to get a lot of this kind of property in lieu of tax payments.

Senator Wagner. What do you mean by a subsidy—subsidy to a private individual?

Mr. McAvoy. No; a subsidy of the Government to the municipality.

Senator Wagner. Oh, I see.

Mr. McAvoy. It is not practical otherwise, Senator.

Senator Wagner. I thought you were talking about a subsidy to a private individual.

Mr. McAvoy. No; that would be too dangerous.

Senator Wagner. Yes.

Mr. McAvoy. But I have gone over many of these housing projects, Senator, and the law permits $11 a room; but you could no more get $11 a room in the territory they contemplate than you could fly. People who can afford to pay $11 a room would not live in those districts.

On page 8, article 7, we feel that new loans should be made only in accordance with a loaning survey, and that this running inventory or survey of community needs should be jointly determined by the Federal units, the realty bodies, and building-material dealers and loaning institutions, with a recheck in each State, and that all the loaning interests of the country, Federal units, savings banks, insurance companies, and so forth, be induced to enter into an agreement for a certain number of years to loan only in accordance with the true home needs of the community.

I offer for the record, pages 65 to 71 of an address made by me before the Mortgage Conference of New York, February 1, held at the Hotel Commodore, which outlines such a "loaning circle."

(The matter here submitted by Mr. McAvoy appears at the end of today's proceedings.)

Mr. McAvoy. In every movement toward new construction that I have seen we see an overbuilding of certain types that are popular, with a ruination of the existing housing. For 20 years I have tried to get loaning institutions to work out this idea, but they have never gotten together on this, but they simply overloan in every cycle of upturn, and they damage not only their new collateral but the old, and constantly keep the real-estate market from ever achieving stability.

I think the United States Government has in the tremendous collateral under the Home Owners' Loan Corporation and the tremendous amount of mortgage collateral that it has under the R.F.C., loans to banks and to mortgage companies, a stake so vast that they must center on and work out such a plan and keep a running inventory and that they should say to the institutions that secure benefits from them, such as the exchange of crippled mortgages for home-loan bonds, that in return they agree for a period of years to enter into such a mutual protective agreement.

The Home Owners' Loan Corporation, incidentally, is doing a dual service. It is rescuing and making solvent many mortgage companies and many loaning institutions, and they should say that you must agree for the next 10 or 20 years to enter into an agreement not to loan except to accord substantially with this survey as to each community's needs and to agree as well to conform to better substance of construction and design.

I believe that the time is ripe to do it. When times get better and competition comes for loans you will find that they will not

want to enter into such an agreement, but I believe now that they are so worried about their collateral that they will all gladly do it. Remember, now, that there is something to trade with.

Also, we feel that regulations concerning appraising should be written into the act, stipulating that qualified real-estate appraisers should be utilized. Appraisers that were qualified as expert appraisers back as far as 1926 and members of recognized realty bodies, to whom they are responsible for their actions, should be a sort of a classification. Compensation should be paid sufficient to attract such men.

We feel that the failure of the Federal Home Loan Board to utilize such appraisers and to pay fees sufficient to secure them is a serious defect in the Home Owners' Loan Act and one that will be costly to the Government and unfair to individuals and communities if continued.

I have nothing but praise to sing in connection with Mr. Fahey's conduct and the Board's conduct of the Home Owners' Loan Corporation. The tremendous movement of organization and what they have performed and the social and economic benefits already accrued is something that I marvel at. As an appraiser, however, and instrumental in securing schedule H in the Home Owners' Act—true, not in full fashion that I wanted it, but it stipulates that standards for appraisal should be made by the Board as to the methods for appraising—I regret to say that the method used in the regulations of the Board does not encompass what I recommended, and the regulations in a complicated three-way method are such that an expert appraiser could not fill them out. It calls for judgment by field appraisers, low-priced field appraisers, that is impossible for any man to give. The value, for instance, of a lot—what will the lot bring today? No appraiser knows that. What would the reproduction cost of that house be today? Nobody can set it up. Rising building costs under the N.R.A., the objective of the administration to reach 1926 levels, would make it impossible. The total absence of the factor of financing costs make it impossible to give that reproduction cost.

Next, the judgment of a field appraiser: My contention is that that should be immediately remedied. Only expert appraisers, members as far back as 1926 of realty bodies or appraisal associations responsible to their organization, should be employed. The fee should be increased from seven and a half in our State, originally $5 an appraisal, to at least $15 or $20, so that they could hire the type of men to do this, to do the running and bring them in the detail so that the men of mature judgment, long experience, and doing business and knowing some economics, could pass upon the figures of value arrived at. I think this question of appraisals is a most serious thing and one that I feel should be incorporated in this act as one of the most important.

Senator BULKLEY. You mean as an amendment to the Home Owners' Loan Corporation?

Mr. MCAVOY. No. I feel that they should do that. They have power under schedule H to revise their regulations. I am not suggesting an amendment as to that at this meeting. But I do suggest that added to this proposed act there should be something like

schedule H in the Home Owners' Loan Act regarding appraisals, except it should be more definite. It should provide for a more scientific method of appraisal than is now being employed by the Home Owners' Loan Corporation.

And I regard as an essential that the experts should be hired and properly paid. It is essential to see that a member of the bar is a lawyer that they hire for their legal closers. However, we have types of men appraising for the Home Owners' Loan Corporation that are not appraisers. As an appraiser, I am ashamed to use the name myself, when I see some of the types who are appraising—lack of knowledge, lack of experience, and the lack of proper qualifications. I feel that that should be incorporated under section 7 that insures more scientific appraising.

Section 5 on page 6:

> No home mortgages shall be insured which involve an original principal obligation in excess of $20,000, or which involve an original principal obligation in excess of 80 percent of the appraised value of the property offered as security therefor in the case of homes constructed since the passage of this act, or 60 percent of the appraised value of such property in the case of existing homes: *Provided*, That, except with the approval of the President, insurance of mortgages on existing homes shall be limited to an aggregate principal obligation on all such mortgages of not to exceed five times the aggregate par value of the Corporation's outstanding capital stock.

The loans on existing structures there are discriminated against very much as compared to loans on new construction; both as to the percentage of valuation of loans that is permissible and both as to the aggregate of the total mortgages to be held by any national mortgage association. We earnestly advocate that the loans—and I suggest it as an amendment—on both new structures and existing structures should be equal in all respects, both as to percentage of value as to loans and percentage of total of loans held, or at least half and half in regard to the latter respect. As to the percentage of the loan, however, I cannot comprehend any principal that warrants differentiation. Appraisals should be the determining factor between the new and the old. As an appraiser I regard that a higher percentage of loan in relation to value can be more safely made on an existing structure than a new one. This is because the existing house is the seasoned one, in respect to neighborhood and all characteristics upon which values are determined; while the new has yet to prove itself as to valuation established which has necessarily been predetermined.

Now, we know that the moment moratoriums are lifted there will be many distressing circumstances, and also that the Home Owners' Act only takes care of distress mortgage situations. There are many people who have been rescued in our State—in New York—that could not pay their principal but could pay interest and taxes. The moratorium which runs from now until 1935 has safeguarded it. But the moment those moratoriums are lifted, or if many mortgagees find that applicants are refused by the Home Owners' Loan Corporation, there will be calls upon those people for replacements. They should come through under this plan, in my opinion, under the national mortgage associations, but they should come through on the same percentage as the new structures can. The appraisal will determine any differences. And I do not see the reason for limiting as to five times the amount of the capital stock, why it should be

discriminated against in favor of new. It starts off one third based on capital stock and decreases in percentage as mortgage holdings increase above capital stock.

Senator BULKLEY. What discrimination is that last one you referred to?

Mr. MCAVOY. The 80 and the 60 percent was my first.

Senator BULKLEY. What about the last one?

Mr. MCAVOY. It says here on line 23, section 5, page 6:

Provided, That except with the approval of the President, insurance of mortgages on existing homes shall be limited to an aggregate principal obligation on all such mortgages of not to exceed five times the aggregate par value of the Corporation's outstanding capital stock.

Senator BULKLEY. What was your suggestion now?

Mr. MCAVOY. My suggestion is that they should be on a complete parity with loans on new construction.

Senator BULKLEY. You would just strike out that limitation, would you not?

Mr. MCAVOY. Yes; and change the percentage.

Senator BULKLEY. Change the percentage to 80 percent?

Mr. MCAVOY. To 80 percent. The appraisal should determine the difference.

Senator WAGNER. The old 80 as well as the new?

Mr. MCAVOY. Yes. I might say that I am tremendously in favor of a sufficient mortgage that will do away with second mortgages. A second mortgage has been a curse. Up to the panic, however, I have seen home owners wade through and pay their second mortgages and their heavy bonuses. I have sold houses with three mortgages on them, and I have never had an occasion to lose a dollar on a third mortgage, because the home owner will pay. He pays and pays. And if you eliminate that awful overhead that you have to pay for second mortgages you have accomplished something definite toward home ownership.

I think that on page 13 under title II, section 203, there should be a greater definition under sub.-3, under the parentheses 3 section 203, page 13, there should be a greater definition as to the type of mortgage collateral; that maturity should be made or extended to at least 20 years, with an interest rate not to exceed 5 percent. At the present time there is no stipulation as to maturity of the mortgage nor the interest rate.

And I would also add that the payments should be made monthly, the amortized payments, not allowed to be run semiannually.

In 1924 I put home operations through aggregating several million dollars where I got both the second mortgagee and first to take 15-year payments, amortizing payments. I would have made it 20 or 25 years had I been able to so arrange it, but it was a novel idea then. I made it monthly payments instead of semiannual. And those people have come through and they have absolutely made good in their houses and there has not been a single foreclosure in several hundred houses. The feature of a monthly payment to a small home owner takes away the problem he has of accumulating money. The most charitable people are the poor, and if they have got a relative or two or sister Sue gets sick and they have several months savings on hand they will take care of them, but if a monthly payment of $40 is to be made next month they cannot do it; it is put off on

some other thing. But I feel we should not permit small short-term mortgages to be insured. Here is our chance to eliminate that evil.

And I might say that another deep interest in my work is to eradicate rotten construction. We have seen horrible evidences of it. I would like to see that eliminated, because it is a positive evil, and if we do not take this opportunity to make mortgagees make 20-year mortgages, not to accept them unless they are amortized monthly for 20 years, with better standards of construction and design in new construction, and to keep the interest rate at a stipulated amount, I recommend not to exceed 5 percent, we will lost a great opportunity.

Page 21, section 302, line 16.

(b) The management of the Insurance Corporation shall be vested in a board of trustees consisting of five members.

I feel that that Insurance Corporation should be broadened and to include a representative, someone representing the home owner, that would be specifically appointed by the President. As far as I see at the hearings of last year, as far as I see this year, the home owner is not represented. I do not mean to say that other people haven't got them in their minds, but they have their own interests; they know better the things that pertain to them, and the home owners' viewpoint and contact are not represented in these situations. I know it peculiarly because of my long home-building experience, and in view of the obligation I owe to my customers who are home owners I feel that is a very serious and important point.

I think I have covered all I have to say, if you will permit me to give for the record a prepared article so as not to take much time. I have been asked to prepare an article recently for the Economic Forum, outlining the Home Owners' Loan Act of 1933 and its future problems, and outside of the first couple of pages, which are in a narrative vein, I have advanced the viewpoints that I have entertained as the future coordination of the mortgage debt from individuals and the protection of the Government's collateral, and I would like to present that into evidence, as I think it might be useful for your committee.

Senator BULKLEY (presiding). Yes; I think that is very appropriate.

(Article submitted by Mr. McAvoy appears at the end of today's proceedings.)

Mr. MCAVOY. Mr. Chairman, I would like to close by reading the following release published by me in the World-Telegram of May 12, 1934, which outlines dire need of additional home-loan bond authorization at this session of Congress. [Reading:]

H.O.L.C. FUNDS TO BE EXHAUSTED THIS YEAR—MCAVOY URGES CONGRESS TO APPROPRIATE $2,000,000,000 ADDITIONAL RELIEF FOR DISTRESSED OWNERS, ETC.

(By James L. Holton, World-Telegram real estate editor)

D. E. McAvoy, secretary of the Home Mortgage Advisory Board, declares that unless Congress at the present session authorizes an additional $2,000,000,000 or more in Home Owners' Loan Corporation bonds, the mounting numbers of distressed home mortgages will exhaust the resources of the H.O.L.C. before the end of the summer.

"It has lately been publicized that relief for unfortunate home owners and equally unfortunate mortgagees can be looked for through the H.O.L.C. program", states Mr. McAvoy, who has championed the cause of the distressed mortgage-burdened home owner for several years. "However, such high hopes of mortgage holders and owners will be blasted when they find the H.O.L.C. out of bonds and funds, and a stupendous waiting list already on file, in the months to come.

"That a million homes have been saved from foreclosure through the H.O.L.C., as stated by me over the radio last Sunday, has been challenged by several statisticians", Mr. McAvoy explains.

400,000 TO NEED HELP

"This challenge serves to bring sharply to light the cold, distressing fact that unless additional home-loan bonds are authorized at this session of Congress 400,000 or more home owners, at the end of their rope, are doomed to tragic disappointment—their mortgagees likewise—and we will witness the deplorable break-down this summer of a continuance of remarkable constructive operations by the Home Owners' Loan Corporation.

"It is impossible to describe the resultant human and economic loss if this is permitted to occur.

"Those contending an error in my count of the home owners saved from foreclosure point out that the national average of loans made by the corporation is $3,000, and that 1 million loans would require 3 billions in bonds, whereas only $2,200,000,000 represent the present authorized issue.

"Congressman Brown's remarks, at a hearing of the House Banking and Currency Subcommittee, before which I recently appeared on the Brunner bill, was that $3,300,000,000 was represented by applications then on file with the corporation.

CITES NEW CASES COMING

"The amendment tightening up distress requirements will eliminate, it is true, a certain number of unentitled applicants, but it is powerless to eliminate true distress cases yet to flow into the corporation from the following sources:

"1. Many mortgagees, who had been according owners in default temporary leniency, will now serve notice upon these owners to pay defaulted interest and taxes, enforcing a heavier increase in applications.

"2. The amendment in the act, widening the scope of the bill in respect to the regaining of homes, lost by foreclosures—going as far back as January 1930. As soon as this act of restitution becomes generally known, another inpouring of applications will ensue.

"3. It must be realized that there are still 11 million or more people unemployed. Every month a new group of distressed home owners, many long unemployed, will further swell the total. This is a type that have been making their interest and tax payments, not from income, but from savings, insurance, and by personal borrowing. The exhaustion of such resources is inevitable.

ANOTHER INFLUX SOURCE

"4. In many cities we have the guaranteed mortgage situation. In New York alone it runs into billions of dollars, a substantial portion of which is on homes eligible to the benefits of the act. When legal procedure permits the signing of mortgagee consents in behalf of these owners who are bereft, not only of income, but of administrative powers, there will be another heavy influx of qualifying applications.

"At a meeting arranged by our advisory board this week", Mr. McAvoy said, "representatives from several prominent organizations in Brooklyn and Queens included William McDermott, chairman of the mortgage and finance committee of the Long Island Real Estate Board; A. J. Swenson, chairman of that board's appraisal division and a director of the Queensboro Chamber of Commerce; George W. Cassidy, president of the Queensboro Chamber of Commerce, and Herbert L. Carpenter, president of the Midtown Club, of Brooklyn, and director of the Brooklyn Chamber of Commerce.

AT LEAST TWO BILLIONS

"At this meeting it was resolved that those present would urge the organizations represented by them, as well as several hundred other associations and organizations in the metropolitan district to form a joint committee to urge Cong ess to authorize the additional issue of at least $2,000,000,000 of home-loan bonds at this session. Also, that such issue should provide, as well, for an additional 10 percent for repairs and modernization, as in the present act."

I am very much indebted, Mr. Chairman, to you and the members of this committee for this opportunity. I would be very glad to answer any questions.

Senator BULKLEY. Thank you very much, Mr. McAvoy. You have made a real contribution. Then we will hear Mr. Stone if he is here.

STATEMENT OF HAROLD STONE, PRESIDENT OF THE ONONDAGA COUNTY SAVINGS BANK, SYRACUSE, N.Y.

Senator BULKLEY (presiding). State your full name and business, Mr. Stone.

Mr. STONE. Harold Stone, president of the Onondaga County Savings Bank, Syracuse, N.Y.

I would like to put in there that for a short time I was one of the directors of the Guaranteed Mortgage Protection Corporation, which was organized by Governor Lehman on this guaranteed-mortgage situation. The reason why I am putting that in is because I want to endorse what Mr. Miller said about the guaranteed-mortgage situation, to show that I have had some connection with it.

Our bank is about a 56-million-dollar institution. We have 33 million dollars of mortgages, between 8 and 9 thousand in number, that average less than $4,000 apiece.

Senator BULKLEY. Those are all home mortgages?

Mr. STONE. The great bulk of them. Our average loan, as I say, is $4,000. That means that practically all of them are on homes.

Senator WAGNER. All in the vicinity of Syracuse?

Mr. STONE. Yes; they are practically all in that vicinity there. But I feel I have some knowledge of the home-mortgage situation. I don't want to take any of your time at all, because I can say everything I want to say by stating that everything that Mr. Miller said this morning, I agree with completely. I had one or two little observations, but I would like to have my record what he said.

I would like to say in reference to the last speaker or witness that it seemed to me he lost sight, when he was talking of these debentures, of the fact that this money was in the first instance loaned by private concerns. It is not Government money that is being paid out; it is finance corporation bank mortgages or whatnot, and if it goes sour the private lender is losing money, so that he is going to be interested to see that it is a good loan. It seemed to me in his talk about the Government putting out these debentures and the people thinking they are Government securities as such, he has lost sight of the fact that in the first instance it is private money.

Also he said, and it has been said before here, that the distressed home owner who needs some repairs is not in financial condition to get credit. I think that is very largely true, but there is quite a class of persons that that does not apply to. To illustrate what I

mean, I will give an example of a case that happened just as I was leaving yesterday. A man owns a little house that he has changed over for two families, one upstairs and one downstairs. If he could get a hundred dollars to fix his roof he could rent the upstairs flat for $25 a month and it would be a good credit risk for the hundred dollars. There is not any way at the present time, and people do not bother with it, and we cannot do it without taking a mortgage.

Senator BULKLEY. You say you cannot do it without taking a mortgage?

Mr. STONE. No; we are only allowed to loan on mortgages.

Senator BULKLEY. Under your State law?

Mr. STONE. Under our State law we could not do it. You would have to get a change in State legislation to permit a thing like that. If we take the property over under foreclosure we can put anything we want to in it, but as long as the title is in the other man we cannot loan it to him without security.

Senator WAGNER. Without the title how could you do very much; how could you loan?

Mr. STONE. We could not, that is, our institution.

Senator WAGNER. That is what I thought.

Mr. STONE. But if you could develop other loaning institutions for that purpose a great deal could be accomplished.

I would like to just raise the question—I am not at all sure that I am in favor of it—but on this repair loan, alteration loan, Mr. Miller said this morning that it would take a long campaign of education to get you bankers and others to make these small loans. I agree with him entirely, and when he said that I was wondering in my own mind if you raised your guaranty from 20 percent to 40 percent or even 50 percent I do not think your losses would be any greater, and I think before you get through the afternoon you will hear some, to me, very astonishing figures on losses on these personal small loans. But I do not believe your losses will be any greater, and it might be an inducement to the banker to make these small loans.

Senator BULKLEY. What was your statement about astonishing figures about losses?

Mr. STONE. Well, I was talking with one of the men who is going to talk to you later from a small-loan-business point of view, and the ratio of losses to my mind was so astonishingly small that I do not believe in this thing you will lose any more if you guarantee it up to 50 percent than 20 percent. The City Bank is what I refer to.

Senator KEAN. The City Bank has about 6 or 7 millions out.

Mr. STONE. Yes.

Senator KEAN. And they do not lose a tenth of 1 percent.

Senator WAGNER. That is an extraordinary record. We had some testimony here of, I think, the Johns-Manville, and they had a loss of about 2 percent.

Mr. STONE. I think he said this morning they had been operating only about 2 years.

I like this bill primarily because it uses private money in the first instance and that it does not involve the forming of such a large organization as your Home Owners' Loan Corporation neces-

sarily has to be and necessarily takes a long time to get it in operation.

Senator WAGNER. Mr. Stone, in what phase of the legislation is your own bank interested? You could not make loans under title I, could you?

Mr. STONE. Frankly, I do not think it would make a penny's worth of difference to our particular institution. I won't say a penny's worth—I think it would do considerable good in the city and thereby help us.

Senator WAGNER. You would get more depositors?

Mr. STONE. No; we are not looking for depositors. We have all we want.

Senator WAGNER. I know you have a great institution.

Mr. STONE. But it would help the real-estate situation.

Senator WAGNER. Yes.

Mr. STONE. And I think perhaps that has not been emphasized quite enough.

Senator WAGNER. You are talking more as a citizen rather than just as president of this institution?

Mr. STONE. Yes.

Senator WAGNER. That is what I wanted to bring out.

Senator BULKLEY. If any of your mortgagors should borrow and renovize their homes you would have their security?

Mr. STONE. Yes, we would have that. Take Syracuse, a city of 200,000 population: I know perfectly well that if there was a feeling that if you could get a mortgage on a house, even if you don't get it and there was a feeling that you could get it, it would help us, because we would get rid of some of this property we have taken over. We are not taking those loans, and we are the biggest lender there. I know if there was that feeling the real-estate situation would improve.

Senator KEAN. You say you are not making any loans. How long has it been since you have made a loan?

Mr. STONE. I say we are not making any—we occasionally make one. We have not made them as a general practice for a year and a half.

Senator WALCOTT. Do you agree with Mr. Miller's statement this morning that it would set in motion about three times as much money as the banks would have to lend? That is, your building fund, the money that would be used and in circulation would represent three times the amount of money loaned?

Mr. STONE. You mean this temporary proposition?

Senator WALCOTT. Yes.

Mr. STONE. Oh, yes.

Senator WALCOTT. It would be as high as that?

Mr. STONE. Yes.

Senator WALCOTT. So that it would put a great deal of currency into circulation?

Mr. STONE. Oh, it would. I would be a tremendous help if you can get the banks to do it, or the loaning institutions.

Senator WALCOTT. Yes. What do you think about that?

Mr. STONE. I think our situation is a little peculiar in Syracuse. I think we could get one of them to take it up and do it as a matter of civic duty for the community.

Senator WALCOTT. Would the strong banks, the banks that have had a good record through this depression, be willing to enter into that effort? Do you think they would feel like lending under this?

Mr. STONE. I think they would do it for the good of the community. I do not think they would do it on a business basis.

Senator KEAN. What do you think of this? Do you think that the bank examiners would allow them to loan?

Mr. STONE. Oh, yes.

Senator KEAN. Do you think the bank examiner would allow them to loan on real estate now?

Mr. STONE. Well, I would hate to see them try to stop me if I wanted the loan.

Senator KEAN. They would throw it out.

Senator WALCOTT. It would depend on the appraisals.

Mr. STONE. No; they would not. Excuse me, but they would not.

Senator WALCOTT. They would not with your bank, but there are a good many banks that might.

Mr. STONE. Oh, yes; that is true. But I mean unless a bank is shaky they haven't any inherent right to tell you whether you can loan on real estate or cannot.

Senator KEAN. But they would question the loan that you have on real estate and would not take any appraisal.

Mr. STONE. They intimate strongly that you should not do so and so. But we have not had any trouble on that. If I felt that we did not have too many mortgages now out we would be tickled to death to go out and do it and there would not be any criticism.

On the question of the formation of these 5,000,000 mortgage companies, I haven't any real opinion on that except to say in a general way that in Syracuse we welcome any loan agency that will loan money. I do not feel qualified to speak on the building and loan association matter. That does not enter into our field very much. I think that that is all I have to say.

Senator BULKLEY. All right; thank you very much.

Mr. STONE. Thank you, gentlemen. I believe Mr. Steffan is the next who is scheduled to speak.

STATEMENT OF ROGER STEFFAN, VICE PRESIDENT NATIONAL CITY BANK, NEW YORK CITY

Senator BULKLEY. Your connection, Mr. Steffan?

Mr. STEFFAN. My name is Roger Steffan; vice president of the National City Bank of New York. My only qualification for appearing here is to give information regarding the credit aspects of the home-modernization phase of the bill. I know nothing about the rest of it at all. I have had charge of the personal-loan department, handling entirely small loans of our bank from the time it started, now about 6 years, and the question was asked whether our experience had showed if the average American citizen was a good credit risk and some of the details regarding that phase of the work, which I am very happy to give if the committee is interested to have it.

Our answer to that question, from the experience that we have had over this 6-year period, would be that he is probably the best

credit risk in the world for this type of loan; that the record of losses during the entire period, which includes the 2 so-called "boom years" and the 3 or 4 years of depression, has been far smaller than the record of losses for national banks for all purposes.

Senator BULKLEY. I do not think you have quite sufficiently defined what you mean by small loans and the terms on which you make them.

Mr. STEFFAN. Yes. The loans are made in sums of from $50 to $2,000, average $320, and are made to a borrower and his wife with two cosignors on the paper; in fact, three-name paper, it is called.

Senator BULKLEY. And without security?

Mr. STEFFAN. Without other security. These loans are made for all purposes of an emergency or constructive nature, and 5 percent of them are made for home repair and modernization at the present. In other words, we made 5,000 loans last year totalling a million three hundred thousand dollars for home modernization work of this character that is proposed in the bill, and the others were for various purposes, such as sickness, education, all purposes of that character.

Senator WAGNER. Just what inquiry do you make about the applicant before you grant these loans?

Mr. STEFFAN. Well, briefly, the information that is essential. Of course, there is considerable detail on the application, Senator.

Senator WAGNER. Yes.

Mr. STEFFAN. But we inquire of the employer as to the fact that he is employed, where he is, that his salary is what he states it is, and the employer's opinion if he is likely to be there for a year, which is the period of the loan.

Senator BULKLEY. Your loans are all made for a year?

Mr. STEFFAN. Yes, sir.

Senator BULKLEY. And on what payments?

Mr. STEFFAN. The borrower deposits one twelfth of the amount borrowed each month in a savings account, so that at the end of the year he is able to pay it off.

Senator WALCOTT. At 6 percent?

Mr. STEFFAN. At 6 percent. And we pay 2 percent to the deposits. That is our regular savings rate. The figures are rather steady for the entire period, around 90,000 loans a year for about $25,000,000, and the total number of loans made is 493,000 for $158,000,000.

The credit loss figures are I think of interest to the inquiry, because I had been asked by those interested in the home-modernization features what our opinion would be as to safety of the loans in question and to the need of the 20-percent guarantee of the Government. On loans made in 1928, our losses were 0.31 percent. In 1929, 0.51 percent, which was the worst year we had.

Senator KEAN. That is a half of 1 percent?

Mr. STEFFAN. A half of 1 percent; 1930, 0.31. 1931, 0.21. The figures are not complete for the following years, but our estimates indicates that it will be 0.19 for 1932, and 0.18 for 1933, and 0.16 for 1934. Those estimates are based on curves which we are able to complete from previous years. Roughly peaking, the losses have been under a quarter of 1 percent for the full period.

Senator WAGNER. Have you any figures to indicate how many applications you reject of this type?

Mr. STEFFAN. We make 92 percent of all applications presented to us.

Senator WAGNER. Is that so?

Mr. STEFFAN. And we reject 8. We try to make the loan. We try to get the man in shape so that he can make it, if there is any question arises that indicates that it cannot be made. The purpose of the department is to be helpful and not to say no to people if they can.

Senator WAGNER. Do you conduct a sort of a campaign to inform these small borrowers?

Mr. STEFFAN. On the contrary, Senator, we do not, because we do not believe in advertising for loans, and our observation has been of other companies that when you do, you do not get such good applicants. That is, higher-rate companies.

Senator WAGNER. Are they made mainly by these branch banks that you have around the city?

Mr. STEFFAN. The branch system aids it a great deal, although one third of the loans are made at the central point at Forty-second Street, where we have our central office for this department; but applicants can come into any one of the 72 branches, and they do.

Senator WAGNER. What is this branch of your business called?

Mr. STEFFAN. The Personal Loan Department. While it is true that these loans differ in two or three respects, one of which I think is rather important, from the loans that are contemplated, I should like to say this, that while we have what we call "co-makers" on each loan, and as I have said, our credit losses are less than a quarter of 1 percent, we collect less than a half of 1 percent from co-makers. I only mention that to show that as far as solvency is concerned these loans can and are paid 99¼ percent by the borrowers themselves.

Therefore, there is no reason why the type of loan that is suggested here, if made with equal care and the same credit investigation, should not be paid 99 percent. Whether or not they will be is a question, because of some other factors, but it is possible that it can be and should be. As a matter of fact, I would estimate, if I could hazard one element of opinion, when really I ought to only give facts, there is no reason why losses on loans for home modernization, even on single-name paper as is proposed here, it seems to me, should run beyond 5 percent, and I would guess that they ought not to run much beyond 1 if they were made with proper care and made fairly liberally.

Senator BULKLEY. The amount of loan that you make to anybody must be relative to his earnings so that you know that his monthly payment can be made out of earnings, isn't it?

Mr. STEFFAN. That is the most important factor, Senator. And that fact plus this one: The time element. Amortization, of course, monthly amortization, is absolutely essential. Otherwise the thing falls immediately.

The only place that it seems to me perhaps there is a little too much optimism in the bill is the suggestion of a 5-year period. Now, I perhaps am not as thoroughly informed about it as those who are interested in it, but it seems to me that a 3-year outside figure, and preferably a 2-year figure, for this type of loan is preferable.

Senator BULKLEY. Naturally the long time increases the risk.

Mr. STEFFAN. Undoubtedly it does, and it not only increases the risk, but you cannot foresee circumstances. And there are very definite figures for people of this type. Let me say that the average person that we deal with has a $2,800 income, which of course, is higher than it would be outside of New York City. About once in every 3 years he runs into an emergency that he has not provided for.

Senator BULKLEY. What requirement do you make in making a loan as to life insurance or sickness or accident insurance?

Mr. STEFFAN. Life insurance is a prerequisite of every loan.

Senator BULKLEY. It is what?

Mr. STEFFAN. It is required on every loan.

Senator BULKLEY. Is it a specific insurance on the loan?

Mr. STEFFAN. It insures the decreasing balance, and it is provided so that at any time the borrower dies no further deposit is required and the insurance is paid by the Prudential Insurance Co., the loan is paid by the Prudential Insurance Co.

Senator BULKLEY. And the borrower pays a premium to cover that, does he?

Mr. STEFFAN. He does. It is practically painless. It is so small that it is not noticeable. It is 20 cents for $100, and it is taken out each time so that he really does not know that he pays anything, it is so small.

Senator BULKLEY. That is very interesting. Now what about sickness or accident insurance?

Mr. STEFFAN. It does not seem to be important. Originally we had that, but disability is a very difficult thing to define, and we had all kinds of trouble with people with crooked fingers and broken eyelashes, and it is not a very important phase of the business. Death is important because that stops everything.

Senator WAGNER. Have you any figures on the death during the life of the loan, the percentage?

Mr. STEFFAN. Yes; I have it here. In 1933, last year, full year, $65,000 worth of loans liquidated, which probably means that on the average half of them were paid off. That is $125,000 face of loans, and they average $300 apiece. That is, 400 of our loans were paid by insurance. That many people died.

I think this time element is a very important one. I would not emphasize it, but I am sure that—as I started to say, once in every 3 years the average city family must come to an emergency lender such as ourselves, or the industrial banks who do a very good job also, to get assistance. Now, if all his available savings are being taken for a past home-modernization project, he is going to be left and his family is going to be endangered if he does not have this thing paid down, and I do not like to see people forced into a situation like that.

Senator WAGNER. Those are very interesting. I did not hear them.

Mr. STEFFAN. About once in 3 years the average family has to have emergency financial assistance, and that is why I do not like to see a loan of any character which is not a mortgage loan made for longer than the period of preferably 2 years, so that whatever emergency arises, like a child in the family or a broken leg or a mother

having to have an operation, comes along, this family is not able to take care of that by getting an emergency loan because he is loaded down with a modernization.

Senator WAGNER. What do you mean by the average? That is very interesting. Just what do you mean by the average family?

Mr. STEFFAN. Oh, I mean the type of people we loan to.

Senator WAGNER. Yes.

Mr. STEFFAN. That is a fellow with a salary of about $2,800, is the kind of man that we have carried, and has about a child and a half, according to our averages.

Senator WAGNER. Has not much opportunity to lay anything aside?

Mr. STEFFAN. Not much, but is willing and able to meet his obligations.

Senator WAGNER. Yes.

Mr. STEFFAN. The most revealing thing, of course, in our entire history has been the capacity of people of moderate means to meet their obligations. It was a great surprise to us.

Senator WAGNER. That is, their desire to?

Mr. STEFFAN. Yes.

Senator BULKLEY. And would you say that the defaults over a 5-year period would be a good deal more than five times as much as what they would be in 1 year?

Mr. STEFFAN. I doubt if they would run that high.

Senator BULKLEY. They would not be much more from year to year? Of course, what you were saying before would lead me to think that you were going to say that the risk was very materially enhanced by the longer time.

Mr. STEFFAN. I am thinking of the risk of the borrower. I am always thinking of him more than I am of the lender.

Senator BULKLEY. I think that is the right way to look at it.

Mr. STEFFAN. There is much covered by this 20-percent guarantee that it is ridiculous.

Senator BULKLEY. I mean apart from the 20-percent guarantee.

Mr. STEFFAN. Well, I think it would increase it. It would simply be a guess, Senator. I haven't any idea. I was thinking of the 5-year danger to the borrower than to the lender, although I think the losses would increase.

Senator BULKLEY. If you lose three quarters of 1 percent in 1 year, would you lose more than five times that amount over the 5-year period?

Mr. STEFFAN. I would not think so. No; I would not think so.

Senator KEAN. But you think you would lose considerably more?

Mr. STEFFAN. I do, sir.

Senator KEAN. And do you think that it was not a good loan to make because it was hard on the borrower?

Mr. STEFFAN. In many cases I am afraid it would work out that way.

Senator BULKLEY. If they all ran exactly the same, it would be about a 4-percent loss?

Mr. STEFFAN. That is right.

Senator WAGNER. There is another aspect I was just thinking of that may work another way: that having incurred this obligation for a period of 5 years, at the end of 3 years an operation is needed

and the man is not able to borrow, so he cannot, perhaps, have the operation.

Mr. STEFFAN. That is undoubtedly true, and it would endanger a family greatly by that situation.

I wanted to comment on this factor: Of course, the one important difference between our paper and the paper that is proposed here is the fact that we have these two comakers, but in spite of the fact that we only collect less than a half of 1 percent from them, the fact that they are there makes that paper much better than it would be with them not being there, even though it has been shown that the borrower pays 99¼ percent good, the comaker acts as an invisible collector for us.

Senator BULKLEY. He helps you to collect it, doesn't he?

Mr. STEFFAN. He not only helps, but the mere fact that he is there prevents it from becoming delinquent. While some borrowers might be glad at times to stick the bank, and perhaps even the Government or the bank and Government jointly, they do not want to stick their friends, and that is the big force I think that helps this type of business, without having to call on them in an actual way. They will be a little different, of course, in this paper that is proposed here. That is why I think that your loss will be probably higher, say more than 5 percent.

Senator BULKLEY. It will be substantially higher on account of having no comakers?

Mr. STEFFAN. I think so. I don't think you could avoid it being some higher.

Senator BULKLEY. I think that is true.

Mr. STEFFAN. I do not think it would be a very large figure. I am glad to leave this tabulation of the figures I gave. I have nothing to recommend, but if I can give any information I will be glad to.

Senator BULKLEY. Yes. Thank you very much.

(The tabulation submitted by Mr. Steffan is as follows:)

Experience of the personal-loan department of the National City Bank of New York in making emergency and constructive small loans to average-type consumers in New York City

Year	Number of loans made	Dollar volume	Average size	Credit loss to date	Final credit loss expected
				Percent	*Percent*
1928	20,852	$8,472,931	$302	0.38	0.31
1929	79,611	28,750,410	361	.58	.51
1930	88,155	30,737,612	347	.33	.30
1931	88,014	29,755,934	338	.22	.20
1932	91,301	27,653,601	303	----------	[1].19
1933	89,677	24,500,409	273	----------	[1].18
1934 (to May 1)	29,058	7,925,008	273	----------	[1].16
To date	493,868	157,795,905	320	----------	----------

[1] Estimated.

Senator BULKLEY (presiding). Now, Mr. Harriman.

STATEMENT OF W. A. HARRIMAN, SPECIAL ASSISTANT ADMINISTRATOR OF THE NATIONAL RECOVERY ADMINISTRATION, MAYFLOWER HOTEL, WASHINGTON, D.C.

Mr. HARRIMAN. I will make my comments very brief.

Senator BULKLEY. If you will just state your name and connection, please.

Mr. HARRIMAN. W. A. Harriman, Mayflower Hotel, Special Assistant Administrator of the National Recovery Administration. I was assigned by the N.R.A. to the Emergency Council to work with those in the Emergency Council that were considering this modernization and mortgage situation. During the winter I have discussed the matter with a good many of the men on the code authorities and have yet to find anyone that is not enthusiastic on this question of modernization and repairs. I will speak particularly about that.

I suppose among the damaging things of the depression the deferment of maintenance has been one of the disasters, not only because of the increase of unemployment but also because of the fact that perhaps the deferment of maintenance, if postponed too long, will destroy property, and yet in that there is a hope for the future in really creating new employment at this time if the dead center can be broken through.

There are certainly two fundamental reasons for the deferment of credit: One is psychology and the other is the lack of credit. Although from the credit that we have made I believe that there should be several times more money spent on modernization and repair, if the drive can be undertaken, than will be lent under this credit plan, at the same time the credit plan is of the essence in order to get the thing started. If that credit plan is worked out and is followed through there are definite indications that not only individuals but also industry itself will put on a drive to pick up deferred maintenance in industry, and some of the code authorities have been at work to make certain estimates as to what that can amount to, and it runs into a good many tens of millions of dollars in the preliminary estimates that have been made in a few of the industries.

The code authorities under the N.R.A. will cooperate with this drive if it can be undertaken, both in getting back of it from the standpoint of doing repair and modernization work within their own industries and also to try to make the drive attractive from the standpoint of the home owner, who it is hoped will pick up his deferred maintenance.

On the mortgage feature of the bill, that is a matter that I am expressing a personal opinion on. That has nothing to do with the N.R.A. There is no doubt but that to create new construction something must be done to revive the mortgage market, and it is my personal opinion that this bill is a very constructive bill along those lines. I know there have been some criticisms of it, but by and large it seems to be the best solution that can be presented at this time, and I am very hopeful that it will go a long ways toward breaking the stagnancy in the mortgage-market situation that exists today.

I do not know if there are any questions which the committee would care to ask as to the N.R.A. or from the code authorities'

point of view on this legislation, but I assume that it was for that reason that the emergency council wanted me to appear.

Senator KEAN. I will ask you some questions. Where did you come from?

Mr. HARRIMAN. I come from New York City.

Senator KEAN. Where were you educated?

Mr. HARRIMAN. I was educated at Yale.

Senator KEAN. And have you ever had any business experience before you came here?

Mr. HARRIMAN. I was trained in the railroad business.

Senator KEAN. What railroad?

Mr. HARRIMAN. Union Pacific.

Senator WAGNER. His father was Mr. E. H. Harriman.

Senator KEAN. How long were you in the railroad business?

Mr. HARRIMAN. I have been in the railroad business, off and on, all my life.

Senator KEAN. When did you graduate from Yale?

Mr. HARRIMAN. In 1913.

Senator KEAN. And then you went right down to the Union Pacific?

Mr. HARRIMAN. I went to work with the Union Pacific; yes.

Senator KEAN. And what did you do, with the Union Pacific?

Mr. HARRIMAN. Well, I worked out West for awhile and subsequently was purchasing officer of the Union Pacific.

Senator KEAN. You were in the purchasing department. You know prices of rails?

Mr. HARRIMAN. I know prices of rails.

Senator KEAN. And then you came down here to figure out some of these questions here, but you have had no training in the mortgage business?

Mr. HARRIMAN. No.

Senator KEAN. You had no training in the housing business?

Mr. HARRIMAN. No.

Senator KEAN. I think that is about all I want to ask him. I do want to ask one thing more——

Mr. HARRIMAN (interposing). I can say that I have made a study—as a matter of intellectual interest, I have made a good deal of study of it, and I am convinced that if the Government will cooperate there is a great opportunity, perhaps the greatest opportunity in the next period in the development of decent housing for the major part of our population, which are certainly living in substandard housing.

Senator KEAN. Substandard to what?

Mr. HARRIMAN. Substandard to what I believe—all Americans believe—is a proper and decent place for American citizens to live in.

Senator BULKLEY. Will we not have to have an increased earning power to sustain the improvement in housing?

Mr. HARRIMAN. You have to get low-cost housing, not only in the sense of low rentability but, in my opinion, low cost of construction.

Senator BULKLEY. How are we going to maintain that if the N.R.A. is going to advance prices?

Mr. HARRIMAN. I do not believe that particular problem has anything to do with the N.R.A. I think that fundamentally requires the cooperation of the manufacturers of material with those that

construct houses, and labor, because at the present time a man gets for a dollar in the house that he builds far less than he does in automobiles or radios or something else.

Senator WAGNER. If the wages go up the purchasing power is there to continue it?

Mr. HARRIMAN. It is a question of organization.

Senator KEAN. Will there not be a great many poor houses put up?

Mr. HARRIMAN. I think we have a lot of poor houses now.

Senator KEAN. No; I don't mean that. I mean poor houses, of cement, and so forth.

Mr. HARRIMAN. There are a good many plans. One gentleman who was here this morning could give you a good deal more about it than I can.

Senator BULKLEY. Thank you very much. Now, Mr. Pugh.

STATEMENT OF JORDAN A. PUGH, DISTRICT MANAGER BRICK MANUFACTURERS ASSOCIATION, REPRESENTING STRUCTURAL CLAY PRODUCTS, WASHINGTON, D.C.

Mr. PUGH. My name is Jordan A. Pugh, representing structural clay products. I believe you said you wanted something of the background of the witnesses?

Senator BULKLEY. Yes, sir.

Mr. PUGH. I was at one time traveling auditor for the Standard Oil Co. I have been engaged in the quarrying of slate——

Senator KEAN. Where did you quarry slate?

Mr. PUGH. Down in Albemarle County, Va. I was associated with a firm of investment bankers at Norfolk, Va. I was in the brick business and had retired from that and then took charge of the Washington office of the Brick Manufacturers Association, and I have been a director of that organization for about 10 years.

Senator BULKLEY. That is your present connection?

Mr. PUGH. I am Washington manager of the Brick Manufacturers Association and handle all structural clay products there for the different divisions under that code.

Senator KEAN. Did you carry hollow brick there?

Mr. PUGH. You must be from Toledo?

Senator KEAN. No; I am from New Jersey.

Mr. PUGH. No; hollow brick is included in the common brick.

Senator KEAN. At Perth Amboy they make hollow brick.

Mr. PUGH. It is conceded by all the most desirable of adequate housing. Admittedly, low-interest rates, low-finance charge and long-term financing would possibly induce one to favor the bill who otherwise would not.

May I suggest for your consideration that these corporations that are to be authorized to make loans during some stated period after the passage of this bill should do it at the lowest permissible rates of interest and for the longest permissible periods, and that the rate of interest be increased and the time of the loan decreased during successive periods until eventually the financing terms approach those now obtaining. My thought about that is that it would be desirable to induce the construction of residences, and the fact that

the best terms could only be obtained by immediate action might hasten action which would otherwise be deferred.

I have here some relative figures taken from the Statistical Abstract for 1933 of the United States, showing the trend of residential construction.

The normal value of residential construction is about 2½ billions. In 1925 it was $2,747,000,000, and in 1932 it had declined to $280,000,000. Expressed in square feet of residential buildings it declined from 559,000,000 in 1925 to 73,000,000 in 1932.

This tabulation illustrates clearly the subnormal level in the construction industry, and accounts for a large part of the present unemployment. Without going into details, the year 1933 bettered the situation very little.

The doubling-up process has resulted in most people having some form of shelter, but too many families are inadequately housed at the present time. I have no definite information as to the value and floor space of residences destroyed by fire, but the total annual fire loss is approximately $450,000,000, and many residences are torn down to escape tax rates which in recent years often exceed the earning values of city properties. Depreciation is also taking a constant toll. All this is a matter of common knowledge, and I think it is generally agreed that we are accumulating a large shortage of adequate housing. Eventually this situation must be met.

Should the shortage of housing become too acute, the cost of meeting it would be colossal. Therefore there is much to say in favor of any plan which will serve to gradually divert into the construction of needed housing, with consequent relief of unemployment, any accumulated funds possessed by people who really desire better housing but who do not have in hand sufficient funds to start. It is trite to say that the home owner is the better citizen

I have a few figures here showing the odd movements of invested funds. For instance, building and loan associations from 1928 to 1932 declined about $300,000,000. Life insurance in force declined from $108,000,000,000 in 1930 to $100,000,000,000 in 1932. But, on the other hand, postal-savings deposits increased from $119,000,000 in 1928 to $914,000,000 in 1933. Obviously people distrusted the ordinary organizations and shifted their funds into Federal control.

It is interesting to note that building and loan assets declined from $8,824,000,000 in 1930 to $7,745,000,000; that life insurance in force declined from $108,885,000,000 in 1931 to $100,154,000,000.

Conversely, postal savings increased from $127,639,000 in 1929 to $914,234,000 in 1933. As a matter of fact, this latter figure represents only the balance on deposit in banks, while the actual amount to the credit of postal-savings depositors at the end of 1933 was $1,208,844,000.

Savings and other time deposits in State and National banks declined from 1928 high to the end of 1932, while deposits in mutual savings banks advanced from $8,600,000,000 to $10,040,000,000 in 1932. Many of these depositors would build if afforded some financial assistance, and the employment brought about by construction activities would have a favorable reflex everywhere. It is probable that at the present time construction costs are lower than they will

be 2 or 3 years hence. So this would seem to be an opportune time to extend assistance to home builders.

In the matter of renovating and remodeling, there are many tenement properties rented by owners. I speak of this from a personal standpoint. In the State in which I am interested there are some 75 tenement properties that are rented. We cannot borrow on that commercially, because the revenues today are taken up almost entirely by taxes. Renovation of these properties is just as important as renovation of privately owned homes. Many of thes renters, owing to reduced income, have been unable to pay for adequate housing. The property owners, harassed by high taxes, have been unable to keep these tenements properly repaired and the low income from such properties has made it difficult for many of the owners to borrow for maintenance of these properties even when they wished to make repairs. I trust that some provision will be made in your legislation for taking care of this situation.

Senator KEAN. Let me ask you a question right there. Suppose the income from these houses is not sufficient to pay anything more than the taxes: Would you think it was a good loan for the United States to make on that property when the prospects are that you could not pay interest?

Mr. PUGH. I think it would be analogous to the statement that the gentleman from New York made about the man who had a house on which they had a loan and if they could have repaired the roof on the second story the rental of the second story would have taken care of the roof repairs. But today, taxes being a first lien on property, they just take everything away from them.

The possible conflict of interests between the agencies here proposed and those now existing will of course be considered from the larger viewpoint; but our industry, employing normally 100,000 men and now about 15,000, sees in this bill a possibility of a general and sound improvement.

That is all the statement I have to make, gentlemen.

Senator BULKLEY. Thank you very much.

Is Mr. Caffery present? (No response.)

Is Mr. Duke present? (No response.)

We will adjourn until 10 tomorrow morning.

(Whereupon, at 4:45 p.m., the committee adjourned until tomorrow, Thursday, May 24, 1934, at 10 a.m.)

FIRST ANNUAL CONVENTION—THE MORTGAGE CONFERENCE OF NEW YORK—FEBRUARY 1, 1934, AT THE HOTEL COMMODORE, NEW YORK CITY

THE SMALL HOME SITUATION

(By Mr. D. E. McAvoy)

The Long Island Real Estate Board has welcomed the invitation to touch upon "the small home situation" at the first annual convention of the mortgage conference of New York. The board has delegated the presentation of its viewpoints on this subject to its mortgage and finance committee, on which I have the honor to serve with Mr. William McDermott, president of the Long Island Bond & Mortgage Guaranty Co.

While, without doubt, the small house question has some problems peculiarly its own, we do not believe that it can be treated strictly separate from the general housing problem. In marketing small homes on Long Island, customers

are drawn from the city at large. When this angle is viewed it is easy to understand its interrelation.

The purpose of this assignment, we understood, was to ascertain whether there is a need for construction in the small-home field. While an inspection of Queens, Nassau, and Suffolk Counties would reveal that there are relatively few unoccupied houses today, we do not feel, however, that this condition should be a sole index as to the need for new construction. We are in a period of transition—a state of flux—and financial reverses and upsets have occurred to many of the occupants of these houses, and many of these homes will be in the market for sale whenever there is a revival.

We regard as a more important aspect of this question—and the one that should be our guide—the economic position of existing housing. Is it sound? Provided there is sufficient housing to decently shelter people, is it wise to bring more houses into competition with those already existing? Also, what types are really needed? Who can know in the absence of a true survey? Unquestionably, it is quite possible that cases can be found of new houses selling in various sections. Again, is this a true guide, when the strategies of sales psychology are analyzed? This year's motor car may be so improved with gadgets as to make an owner dissatisfied with a still good car of a former year, and these differences, by cultivation, can be so marked as to make him discard his older car as obsolete, when such, mechanically, is not its condition. This obsolescence during the last 10 years has been so speeded up by the manipulations of operators, heedless of true needs, that we seriously feel it must be controlled in order to safeguard equities of former purchasers as well as mortgage investments.

At the present time a majority of home owners are retaining their homes because of leniency being extended by mortgagees. A majority of mortgages are now running open and would be called if it were not for the existing moratorium. Any appreciable amount of money provided for new construction now would be the forerunner of wholesale foreclosures immediately upon the expiration of the moratorium, and new construction would so depreciate old houses that wholesale abandonment also would result with its attendant demoralizing effect on home ownership.

Present rent schedules both in private homes and apartments are below the minimum to justify existing mortgages. I understand that there are a number of apartment houses with occupancy well up to normal that are still in the red because of the greatly reduced rent schedules. Also a great number of owners of two-family houses have either vacant apartments, or, if occupied, the rent is far below the amount necessary to warrant the amount of the existing mortgages and leaves no leeway for the reduction of the mortgage, particularly because of the lowered personal income of the owner who, if he could, might be willing to carry on and meet his contractual obligations, despite his lowered personal income.

Home ownership developed tremendously during the expansion period following the war, largely because of the rents obtaining at that time. Today rental income is estimated at 65 percent as against 100 percent as of December 1928. Other commodity incomes show 85 percent, according to David Lawrence in the United States News.

During the same period we had a great natural increase in population, plus a crowding to urban centers because of the opportunities for remunerative employment. The automobile industry, relatively new, was growing at a rapid pace; the radio industry was likewise in a state of development; the use of electrical appliances advanced to a new high, and the moving-picture industry rose from an obscure position to take its place among the greatest industries in the country. During every period of prosperity some new and growing industry led the way, but in the decade immediately preceding the depression we had four. Today we have none in the offing.

It is said by advocates of new construction that our prosperity has always depended upon activity in the construction industry, and that the return of prosperity depends upon a renewal of activity in that industry.

The construction industry should realize that a proper cultivation of repairs and modernization of existing houses can furnish them, more soundly, with many hundred of millions of dollars per year.

Recognize the fact that more labor and building materials can be consumed in reconditioning and modernizing existing structures, with the salvation not only of owner but security investors, than really needed new construction could possibly give at the moment. When a property is allowed to run down,

both the owner and mortgagee suffer. Many times foreclosures are the result, in which event the mortgagee has to advance money to restore the property to salable condition and then seek a buyer. If one is obtained, it is usually one with a small amount of cash, and he may not be any better risk than the former owner, so that the position of the mortgagee is only technically improved. Under such conditions, the new owner has not the interest and will not make the sacrifices to maintain the property that the original owner would because of sentimental associations.

There are whole areas wherein properties are in need of modernization and repairs, or both, that will, with improved conditions, be abandoned if new housing is provided to any appreciable extent. Repairs and modernization should be supervised so as to provide not only for the physical preservation of the property but in order that it will be made desirable. After this is cared for, the construction industry, revolving through this gear shift, can tackle in a better day the enormous market of small houses, the "Fords", so to speak, a possible billion or two in dollars per year. A market only feasible if home owning is made and proven safe.

For example, I know of one owner that recently reconditioned a frame building. It transformed the appearance of this building by encasing it in brick veneer and fire-proofing the roof with material of an attractive appearance; inserted a girder and lally columns in the basement, where too wide a spread would cause undue settlement, and water-proofed the cellar.

In addition to improving the appearance of the street, and contributing to community betterment, they sold the house to a buyer who would not consider the former building, and netted $1,500 over all expenditures.

The need for new housing at any time is dependent upon three major factors: (1) increase in population; (2) a rising standard of living; (3) shifting population. The increase in population has greatly slowed down due to our immigration laws and lowering of the birth rate. Rising standards of living are brought about by increased income, usually the result of business expansion and the rise of new industries, neither of which seems imminent. I do not refer merely to business improvement when I speak of business expansion. Shifting population, while creating prosperity in one direction, creates a problem in another, such as blighted areas.

The Long Island Real Estate Board, conducting the Long Island division of the home mortgage advisory board, in a valiant, constructive effort to forestall a paralyzing moratorium, had considerable opportunity during the past 18 months to realize the complexities and gravity of our present situation. The records have shown that in these times the average family cannot meet carrying charges and amortize their mortgage likewise. In the recommendations that this division presented to the Senate Banking and Currency Committee at a hearing last April, prior to the passage of the Home Loan Act of 1933, we advocated that the Home Loan bonds should run for a period of 30 years, instead of 15, as decreed; that the bonds should be guaranteed as to principal, as well as interest, so as to expedite conversion for the home owner, as well as to liquefy the mortgage holder; that the bond yield to the bond holder should be 3 percent, so that the annual carrying charges to the home owner, covering interest and amortizatiton should not exceed 6½ to 7 percent.

Practical men realize that, where a home owner has difficulty in paying his 6-percent interest, without any amortization, it is impossible for him to pay about 8 percent, as the present act now entails. When the three-year period of grace from principal reduction is taken advantage of, as the majority will do, they are forced to amortize on a 12-year plan, which entails about 10 percent per annum. This will cause widespread default and retard the re-creation of a selling market. On the other hand, it is plain to be seen that, if the annual charges, covering interest and principal, are kept to within 7 percent per annum, infinitely more people can soundly maintain and carry their properties. It will likewise increase the re-creation of a selling market.

Under the Danish system, which has been in successful operation for many years, the home-loan bonds run for 40 years, and it has been said that they constitute the best collateral in that kingdom.

With an amortizing mortgage, at the end of 15 years the unpaid amount, in a majority of cases, will not much exceed the land value, so that there is really no real risk if houses are safeguarded from false obsolescence brought about by deliberate outmoding on the part of parasitic operators.

We suggested last April, in connection with the Home Loan bill, that suitable safeguards be set up to protect both the mortgage and home-owners' in-

terest. We quote from a book that was distributed nationally by the Home Mortgage Advisory Board, of which Frank A. Vanderlip is chairman, and on which I serve as secretary, covering in extensive fashion a plan calling for a survey of building control, from which the following is taken:

"Set up in each Federal Reserve District by proposed governmental unit, with assistance of or in combination with the building-trades associations and realty boards, scientific surveys as to new construction so that the usual orgy of overbuilding in needed types will not be again experienced at the first upturn of business:

"(*a*) Every loaning institution to agree for a certain number of years to make loans on new construction only where approved under these surveys.

"(*b*) Realty, unlike any other commodity, presents unusual opportunities to control production so as to permit demand to equal supply, and thus resuscitate equities not yet destroyed—only submerged for the time being through such control of loans for new construction.

"(*c*) It must be kept in mind that part of these submersions of equities because of lack of apparent demand is due to 'doubling up'—sometimes 3 families to 1. This represents but a temporary compression of demand and not a permanent reduction. Reemployment will speedily end this unhappy situation which is contrary to our American standards and the demand for homes will speedily expand.

"REFORM BUILDING METHODS

"(*d*) The governmental unit in connection with its advisory boards to formulate standards in keeping with the viewpoint that home construction is a 'long-term commodity.' That it should be set up with a probable life of at least 50 years' duration rather than to be shoddily constructed on the theory that it will become outmoded in a decade. Standards and regulations that fulfill will forever prevent the 'jerry' building episode witnessed in the past decade, since the speculative building field became infested with nonbuilder operators.

"FOSTER COMMUNITY BEAUTY

"(*e*) The governmental unit in connection with its advisory boards to set up regulations relative to town planning, zoning, and architectural standards to prevent the infection of land and communities from architectural monstrosities—another byproduct of the 'jerry' builder. Such a department could also do much to work out ways in connection with modernizing; to offer suggestions to owners of existing buildings, how, by alterations from time to time, they could overcome some of the unsightly appearances that so many of these buildings now present, and how, by proper landscaping, a bleak environment can be transformed. Continued work of this nature would be of great aid to sustaining and improving values, both rental and sale."

At that time we further recommended that an appraisal standard should be set up so as to avoid the evil of reappraisals in the absence of any so-called "market." We recommended using 1926 values, plus subsequent improvements, less 15 percent.

Senator Couzens asked at that time by what percentage reproduction costs had been reduced from 1926 cost levels. My answer was 35 to 40 percent, but that this constituted no criterion, because lack of the financing element kept this from being competitive except on paper; at the first tide of recovery, prices would rise.

It will be conceded that since this statement was made in April 1933, building reproduction costs have increased approximately 25 percent. In view of the monetary change, fixing the dollar at about 60 cents, which is now an accomplished fact, we are urging that the Home Owners' Loan Corporation adopt the appraisal system advocated by us until a market is reestablished, and that this manner of appraising should be adopted for 1 year at least, or until such time as the situation does not call for a more liberal basis of appraising, for this well can happen, between the combined action of the monetary change and such changes of wage scales as may come under N.R.A. developments.

Summing up the "small home situation" and its relation to new construction, we would say: Have such construction as is needed, as shown by a survey or running inventory to be established through the cooperation of the Federal Government, the building trades and supply associations, and the realty boards. [Applause.]

SUBMISSION BY D. E. MCAVOY, SECRETARY HOME MORTGAGE ADVISORY BOARD AND CHAIRMAN JOINT HOME LOAN COMMITTEE OF METROPOLITAN NEW YORK, AT HEARINGS, SENATE BANKING AND CURRENCY SUBCOMMITTEE, SENATOR DUNCAN U. FLETCHER, CHAIRMAN, RE BILL S. 3603, NATIONAL HOUSING ACT, MAY 21, 1934

EXPLANATORY INDEX

The following article was prepared for an economic publication and submitted April 20, 1934. Their interest lay in an outline of the Home Loan Act of 1933 and in facts pertaining to its future.

The article submitted, while in narrative vein for the first several pages, then introduces, in chapter II, page 4, carefully thought-out suggestions for the future part the Home Owners' Loan Corporation can be shaped to play in providing individual, community, and its own collateral conservation.

The suggestions made are based upon a lifetime contact as a home-builder and several years' intensive experience contacting—personally and through committee divisions—over 15,000 distressed home-mortgage cases, while engaged in an organized volunteer effort to save home ownership.

The official record of the Senate Banking and Currency Subcommittee hearings, Senator Bulkley, chairman, re the Home Loan Act of 1933, contains the findings of our board transmitted by me, at the request of one of its outstanding members and chief sponsor of the act, Senator Robert F. Wagner, and this testimony covered, as well, the recommendations as to amendments had from our Long Island Division. (Hearing, Apr. 20, 1933.)

The official record of the House Banking and Currency Subcommittee, Michael K. Reilly, chairman, contains the findings of our board transmitted by me, pressing for various amendments, and particularly that of the absolute need of Congress authorizing at least 2 billions of dollars of additional home-loan bonds at this session, with 10 percent additional for repairs and modernization, as in the present act—excerpts attached. (Hearing, Apr. 24, 1934.)

RE NEW HOME CONSTRUCTION

The latter record also contained a copy of my recommendations in regard to control of "new home construction", as delivered in an address to the mortgage conference held February 1, 1934, at the Hotel Commodore, New York. It embraced a running survey of home needs and reasonable governmental control to be maintained as to new home building, type, design, and substance of construction, in order to protect existing investments against overbuilding and communities from further infection by the "jerry" builder.

SAVING HOME OWNERS AND MORTGAGE HOLDERS BY FEDERAL AID

(By D. E. McAvoy, secretary Home Mortgage Advisory Board)

Looking westward from the Hotel Pierre, a view of striking vantage is commanded of stately Central Park. From a lofty window I scanned the attractive landscape blending in the distance with a magnificent structural

skyline. My mind's eye recalled it as a scene that in better years resembled an urban fairyland when glimpsed from the bridlepath at twilight time.

Such an impression a few may still glean in that high-spot hour. But only those can whose economic ignoranie prevents the realization that this world-famous skyline now sepresents but handsomely formed symbols of mortgage distress that relate in endless ramifications to human misery.

I was listening to vital queries propounded by a group of seasoned, dynamic newspapermen, the financial and real-estate editors of the New York press, for this conference in the winter of 1932–33 had been arranged by me at their request.

An effort must be made to recall the surcharged atmosphere and nervous tempo of those distorted days, if this scene be visualized; the banking holiday had not yet occurred, and impending disaster hung heavy in the air. There was talk of a moratorium in the mortgage world—a word hitherto suppressed, outcropping like angry flood waters; the home world presented the strategic start, and the dean of this group had communicated that the editors desired the views of our chairman.

A lifelong interest in home building privileged me to serve the Home Mortgage Advisory Board, a volunteer organization, as secretary. It was quite unique in the annals of mortgage history. Comprised of social-minded men, headed by Frank A. Vanderlip, with Robert D. Elder as vice chairman, its members were Arthur W. Lawrence, Edward G. Miner, Frank C. Munson, James H. Post, John D. Rockefeller, 3d, Walter Stabler, Henry S. Thompson, and Arthur H. Titus—a board of men who had no axes to grind, no fees to collect, and no need to garner further honors.

That I could promptly serve these editors, who had been of substantial and continuous aid in the furtherance of my initial efforts to ease the mortgage situation, by arranging the meeting they desired, at our chairman's study, gave me a keen sense of gratification, and, the gathering assembled, my duty for the moment was fulfilled. I could take the part then as research student and listener, the superb park view holding my gaze, my ears harkening to the questions and informative answers.

Musing, I saw an unfolding panorama; I saw the park expand to country-wide proportions; the suburban homes flanking the proud cities, then the farms in the hinterlands—homes—homes—homes—all threatened alike, whether city, village, or farm. Winding in an everclosing spiral, in snake- and wave-like fashion, like a great landslip, I saw in fancy, a slowly but relentlessly moving mass of blightful appearance that resembled nothing else so much as murky lava.

It was slowly but surely engulfing our fair farms, villages, and cities—crushing out national family life. Like a graphic portrayal from the crayon of a powerful cartoonist, this destructive mass appeared in sudden transformation labeled "mortgage liquidation." Then I started from my reverie, realizing that these very words were being spoken: "Unwarranted mortgage liquidation caused by a faulty system; fundamentally wrong in making long-term obligations from demand deposits", our chairman was saying, and continued: "A long-term Government bond plan should be seriously explored as the solution for the home-mortgage problem. The Danish system, with amortizing bonds of 30 to 40 years' duration, has stood the test."

I realized then that the devastating scene that I had envisioned, in startling reality, was a composite picture that masterly observations were conjuring in a mind peculiarly attuned to mortgage distress. Added to the hundreds of home owners, I felt personally responsible for as a home builder who had placed many in a now destroying debt, over 5,000 or more sorely tried home owners had visited my headquarters at 33 Liberty Street, New York, for our board was cooperating with the Reconstruction Finance Corporation in the second Federal Reserve district, originally sanctioned by Mr. Charles A. Miller, president, whose warm regard for the home owner has been of lifetime note.

We had established divisions to afford similar personal contacts and mediation for the home owner from Buffalo to northern New Jersey, but our contacts had extended for beyond. Country-wide conditions were reflected through the thousands of letters, for human documents of unmistakable validity literally poured to us in response to broadcasts on national networks delivered by our chairman and myself.

The meeting terminated, but the vivid picture hung, as it still hangs, in my mind, and the thought kept recurring: If this were a physical phenomena that

threatened country-wide disaster, great engineers would be summoned; their pronouncements as to a check would be immediately accepted, even though it would irretrievably sink billions of dollars. Yet, the blight brought on by foreclosure of homes and fear of impending ones was just as effectively commencing a national destruction, I well knew, from the misery I had contacted at first hand.

Why, then, in the face of such disaster, should traditional conservatism block our Government from employing a few billions of dollars of its credits in a remedy that would not mean national loss? This thought likewise kept recurring. A quarter of a century's experience as a home builder assured me that the home owner, the present or the succeeding one, after recovery brought back a natural process of resale, would eventually repay every cent if repayment were proportioned in accord with ability to pay. The history of home mortgages for over a century attests that fact.

THE HOME LOAN ACT OF 1933, A BOON TO HOME OWNERSHIP

This was the birth of a $20,000,000,000-bond plan, covering farms and urban homes, that I presented to Senator Robert F. Wagner, a leading exponent of the home- and farm-loan problems, a few days later, after I had discussed the subject more fully with our chairman. It was released to the press after the banking holiday, for then public discussion of the perilous mortgage situation was no longer fraught with the same danger.

Subsequently I was privileged to appear before the Senate Banking and Currency Subcommittee, at the request of Senator Wagner, and testified as to the amendments essential to the home-loan bill, as introduced, which in the main embodied our theories, the farm-mortgage bond refinancing having been introduced in separate form but similar in theory.

The history of the home mortgage advisory board has been detailed here to some extent to inform the reader that its activities antedate the conception of the Home Loan Act of 1933, and that they have been as unremitting since its passage to foster this great act as they were to bring it into being.

It is also to prevent impression that the suggestions I proffer as to amendments, still necessary, are critical comments by a partially informed, partisan body, or made with any lack of appreciation of the stupendous work that has been accomplished by the Home Owners' Loan Corporation in a relatively short space of time.

I marvel that an emergency act of this magnitude, with unprecedented problems to encompass, could have been quickly fashioned to function in the remarkable way that it has in the 11 months from the date of its enactment, providing a vast highway over which the Nation of home owners and mortgage-holders are traveling to their haven. It is a living tribute to democracy.

It is safe to say that over a million foreclosures have been averted because of this act and untold mortgage groups rendered solvent or so maintained, and the results of freeing into circulation $2,000,000,000 that were frozen in mortgage securities, is providing an impetus to recovery that is second only to the national morale sustained through the human and social values saved and preserved. These results stamp the Home Owners' Loan Act of 1933 as one of the most important of the entire recovery program, I believe.

Under the able leadership of Hon. John H. Fahey, who assumed the chairmanship of the Federal Home Loan Bank Board in October, we have seen a truly remarkable expansion of the activities of the greatest bank with the greatest number of branches of any in the world.

Up to that date the organization of personnel and offices consumed the major portion of the time from June 13, when President Roosevelt signed the act, fulfilling his promise to bring mortgage relief to home owners in place of the gestures that had been made. This organization work was hampered by the concentrated rush of hundreds of thousands of home owners seeking relief, many with foreclosure proceedings under way; these had to be dealt with and averted by mediation until the act could function.

ABSENCE OF PRINCIPAL GUARANTY A BARRIER

The absence of principal guaranty in the act as passed, proved a serious barrier in securing consents from mortgagees. At the Senate hearings, before the passage of the act, we had stressed the absolute need of principal guarantee as well as that of interest, to expedite conversion for the home owner,

since conversion was not mandatory, and to liquefy mortgageholders in order that they might then grapple more effectively with mortgage problems on properties eligible for the benefits under the act.

Happily, in January of this year, our President announced that he would ask Congress to grant the principal guaranty on home and farm loan bonds as a moral obligation. Both the Senate and the House have passed such an amendment (now in conference) and home-loan bonds have advanced, as a result, from 83 in January to over par, and consents from mortgagees, since the President's declaration, have come in literal deluge. Prior to this announcement, the consents in the Nation totaled less than 100,000; the last report of April shows over 800,000 written consents had from mortgagees. Based on the average of $2,800 per loan, this represents over $2,000,000,000, thus earmarking the entire bond issue.

AUTHORIZATION OF ADDITIONAL HOME-LOAN BONDS IMPERATIVE

Here is shown the immediate necessity for Congress to sanction the issue of several billion dollars more, for the flood of consents has only started and home mortgages total $20,000,000,000. The exhaustion of resources by many home owners with no or, at best, inadequate incomes is daily bringing into distress a new quota, for the casualties of this cataclysm have not yet been counted. The situation plainly calls for an "open-end" bond issue to be created as we recommended in April 1933 at the Senate hearings. When asked for a limit as to urban homes by Senator Townsend, I set 9 billions of dollars as to eligibility, depending upon recovery.

AMENDMENTS STILL NEEDED

While the majority of the principles and amendments advanced in my testimony were adopted fully or in part in the act as passed, there were several recommendations beside that of principal guarantee, not secured or sufficiently encompassed, that we hope may yet be adopted by amendments, classified here in enumeration of last April's submission. These suggestions were made by me as chairman of the Long Island division. This distinction lies in that the Home Mortgage Advisory Board confines itself more particularly to the fundamentals involved, while the divisions further the technical phases.

5. Appraisals to be based on valuations of 1926, plus subsequent improvements, discounted by 15 percent for the time being.

6. All homes be eligible as to valuation, with loan limit, however, not to exceed $20,000. (Valuation limit is now $20,000 in the act as passed, with $14,000 loan limit.)

9. That bonds mature in 33 years, with lower interest rate, with total annual charges not to exceed 6½ percent. (Maturity is now set at 18 years in the act as passed, with interest at 5 percent and annual charges at about 8 percent or more, where grace is allowed, which is excessive and will cause widespread default.)

10. That advisory boards be set up nationally, with subdivisions of volunteer bodies to aid governmental units in social readjustments and repossession of homes possible under the act. (Included in the original Senate bill as passed, but stricken out in conference between the Houses.)

11. Survey of home needs, that reasonable control be maintained as to new home building, design and substance of construction, in order to protect existing investments against overbuilding and communities from further infection by "jerry" building; to promote repairs and modernization of existing structures.

12. Bond issue to be made open-end, to meet needs of all home owners. Two billion dollars additional bonds should be authorized at this session of Congress.

NEW PROBLEM OF THE HOME OWNERS' LOAN CORPORATION

The collection of monthly payments from home owners is the next major problem; in fact, is one already confronting the Home Owners' Loan Corporation. It is a very sensitive one and policies regarding it adopted at the outset can either make or mar this act.

Throughout my broad contact with home owners in distress I have naturally conceived ideas as to its handling. In my opinion, a department should be established at once by the Home Owners' Loan Corporation, and I would suggest it be termed "Collateral and Community Conservation", for decidedly a double goal is possible here.

STATE AND COUNTY CONSERVATORS

Under such a plan, each State agent would appoint a "collateral and community conservator", whose duty it would be to conserve collateral behind home-loan bonds by devising and putting into operation various plans to stimulate mortgage payments, differing, as widely as possible, from standard collection methods, habitually used by the average mortgage holder, which during 1930, 1931, and 1932 all but destroyed home ownership.

The "conservator" would, in a sense, coordinate and serve the corporation as a public-relations man. He should at all times recognize that where "extensions of time" are granted that eventually there must be a reckoning. However, let it be duly anticipated, say, in the next 12 or 18 months, or 2 years, according to the speed of national recovery.

In the act as originated, a 3-year automatic waiver of principal payments from its date, provided the borrower was not in default otherwise, was shaped to meet the needs of those people not struck by the blight of unemployment, but with lowered incomes. The provision as to "extension of time as to payment of mortgage indebtedness" was fashioned for those who were out of employment, with other resources exhausted, and therefore could not meet even interest or tax payments for the moment.

It is not at all difficult for thoughtful people, in times like these, to realize that an amortizing plan of mortgage repayment would prove a source, ranging from great embarrassment to impossibility, to the majority of home owners during the first slow stages of convalescence that our Nation faces.

THREE-YEAR WAIVER OF PRINCIPAL PAYMENT SHOULD BE RETAINED

Therefore, I regret that the waiver of principal payment introduced by Senator Robert F. Wagner on the Senate floor was stricken out from the act by recent amendment. To force home owners, who need relief for the time being only as to principal payment, to apply for an extension of time will considerably clog the administrative works in its duties to determine justification.

The necessity of seeking accommodation may tend to discourage the individual who might otherwise make a supreme effort to meet interest and tax payments, rather than apply for relief, and possibly lead him to disregard making such an effort, since he would have the humiliation of applying as a delinquent for an "extension of time" in regard to his principal payments. Psychologically, it has always been proven a good idea to preserve and harness true pride constructively.

However, this situation is not irremediable, since the board has the right to "extend the time of any and all payments" still reserved to it. I believe that a plan should be worked out whereby the conservator should require every home owner seeking relief to make a written, self-respecting statement, as to his ability to pay; let it be over an affidavit and on honor as well as oath. Let the corporation grant him, after private investigation, an annual waiver of principal payment in whole or in part, as circumstances warrant; a fresh statement to be submitted at the end of the year, or sooner, on the honor plan, whenever an improved financial status is gained by the beneficiary.

THE SUBSTITUTE FOR FORECLOSURE

When urging the necessity of including this "extension of time of payment" in the act of 1933, I frankly stated that in my opinion only 50 percent of crippled cases would find their own restoration at the end of the grace period provided, but that no one was wise enough to determine how what troubled cases would eventuate in that fortunate category. The defeated 50 percent I pictured as finding themselves in oversized homes, calling for oversized annual charges, impossible then of yielding to them the happiness that had been the base of their purchase.

The only gateway for these families, facing the major disappointment of their lives, lies in a sale. It should not be permitted to be by foreclosure, but should be that kind that comes with the recreation of an honest market. Toward that end the conservator should be active in community work, cooperating with the local real-estate boards and associations and active in research that will aid in controlling new construction to conform to genuine community needs, and thus holding a sale value for the old.

Promoting modernization is another duty for the conservator; devising methods of income feature by creating rentable portions of the dwelling, that might increase salability, even if it did not bring in sufficient income to enable owner to carry.

REAL ESTATE MINDS ARE NEEDED

Real-estate brokers of the organized type, on the whole, are progressive, and are susceptible of the highest cooperation, as demonstrated to me in their volunteer conduct of our divisions, if their professional talents are but recognized. Unfortunately, in the matter of appraisals, the Home Owners Loan Corporation has not so recognized them. I believe it will prove desirable to remedy this mistaken policy at once.

An honest sale, netting some cash return to these unfortunate home owners, will act as a rehabilitation fund that may avert many families becoming dependent on relief rolls. It will also, when soundly made, place the Government-refinanced homes in stronger hands, that can eventually repay, and will save, likewise, the neighborhood from being further blighted by another foreclosure.

A GREAT SOCIAL READJUSTMENT

The morale of the family that is so readjusted will be uplifted. Enabled to use a portion of a hard-earned equity through a blighted period, they will recognize that a fair chance was afforded them in the recovery period, to reattain their former economic status. Spared the depressing experience of foreclosure and eviction, the proceeds had from a real sale, while perhaps constituting but a small part of the paid-in equity, it is sure to be deeply prized in that it may secure a smaller home that they can carry, or achieve some readjusted position with retention of independence.

Our Government has signified its intention of transporting destitute people to areas in which their abilities will be both better suited and in greater demand. Here is an opportunity for the conservator to cooperate with the governmental department and work a badly needed social, as well as economic, readjustment.

LOWER INTEREST YIELD SHOULD BE GRANTED HOME OWNER

Now that the bonds are fully guaranteed, a lower yield should be in order. The board has the right, under the amendment, to issue them at a yield "not to exceed 4 percent", although the home owner's interest charge stands as before at 5 percent. Three or three and one fourth percent at the utmost, should be the yield on a parity with other Government bonds. If not so reduced, the mortgage will reap a premium at the home owner's expense, for his present interest charge of 5 percent is decidedly too high.

I have recommended, by national press and radio releases in February, that the saving on bond yield, warranted because of principal guarantee, be set up as a semiloss reserve and semithrift promotion fund; that a pro rata amount of such aggregate income reserve balance should be credited to every home owner for any payment made on principal during the time of any principal waiver and thereafter applied as a credit addition to any payment of principal made in excess of that called for under the terms of the mortgage. Here is a galloping incentive to encourage thrift and to expedite the repayment of mortgage obligations, always tending to improve the collateral behind the bonds.

PROMOTING NATIONAL THRIFT

Through the efforts of our board, which was the suggestion of our chairman, we were instrumental in having written into the act the provision that the home owner could pay his mortgage indebtedness by turning in home-loan bonds at par, regardless of the market price acquired at. Through this wise

provision, which many financial minds have commented on as a depression marketing feature superior to other Government bonds in that respect, the conservator is supplied a splendid opportunity to start thrift accounts. Possibly this could best be done through savings banks, wherein the home owner would deposit any amount weekly from $1 up toward the purchase of a bond, regardless of his ability to fully meet his mortgage payments, interest to be allowed immediately on such deposit, and any advantage in acquiring the bond under par to accrue to the home owner.

If this idea were supplemented by the plan I have suggested, of crediting a pro rata portion of the income reserve effected by a bond yield reduction below the present 4 percent, as credit addition to any principle payment made by the home owner above stipulated mortgage terms, I believe a national thrift movement resulting in substantial debt reduction could be built up of far-reaching effects.

Only the highest type of man, utterly removed from undue political influence, should be selected as collateral and community conservators, for they must deal with people of diverse politics, impartially. They should be types who normally would not seek the position, but should be literally drafted for community service. Familiar not only with the mortgage and realty business, they should be unquestionable as to moral integrity, influential in their commodities, and, in addition to possessing a keen business experience, should have a reputation for and knowledge of the human values involved in these problems.

RACKETS MUST BE ELIMINATED

Anticipating misrepresentation by unscrupulous swindlers, pretending ability to negotiate in behalf of home owners and mortgagees, severe penalties were incorporated into the act, applicable to anyone who attempted to extract a fee for such alleged services.

The Long Island Real State Board, conducting our Long Island division, under President Swenson, exposed a racket in 1932, in which the distressed home owner was preyed upon by the racketeers promising to refinance any mortgage that was in distress, demanding a small fee for reappraising the property. After extracting the fee, the promise to do the refinancing was found to be of no value.

It is reported that a new racket is being engaged in by some parasitic types who are calling on mortgagees, particularly the junior ones, and of offering to represent them for a percentage charge, claiming the ability to secure a fuller amount.

Under today's conditions it is to be expected that in a majority of cases there are not sufficient bonds on a proper appraisal to fully satisfy junior mortgages after clearing the first, the interest and tax accruals, and making necessary repairs. Normally these mortgagees would gratefully accept the compromise. Under certain conditions, so would the first mortgagee.

Contemptible practices of this sort, worthy of the war term "looting" and punishable by lining up against a wall, is as unfair to the Home Owners' Loan Corporation and its officials as it is to the home owner and the public at large. The racketeer undoubtedly insinuates "inside connection." Unless mortgagees and everyone involved that entertained such representation are apprised of the penalties that may devolve upon them and the guilty made to feel their teeth, it is obvious that sooner or later these racketeers will consummate the bribing of some appraisers in order to obtain their objectives. The penalty clause in the act should be overhauled to include every possibility of racketeering.

APPRAISING METHOD NEEDS REFORMATION

In my opinion, an absolute check to this nefarious practice lies in the Board adopting such appraisal methods as we originally proposed. Because of the reappraisal evil and its pitfalls, I urged at the Senate hearing that a standard of appraising be included in the act; that it would not otherwise function properly if left to field appraisers, totally bereft of the usual guides. As a result of continued contentions on this point, and through a complete agreement on the part of Senator Wagner as to its necessity, the committee was induced to write into the bill schedule H—the Board shall make rules for the appraisal of property on which loans are to be made under this section to accomplish the purposes of the act.

Being instrumental in introducing this principle into the act, I was disappointed to see its purport weakened by failure of the Board to adopt the method I suggested, based on a long appraisal experience, which I firmly believe, backed by many expert opinions, is the only one practical. I had hoped to see this method of appraising defined in the act.

My method was that field appraisers should establish 1926 values, plus subsequent improvements; their work sheets to show the depreciation deducted or obsolescence mark-off modified by re-created values possible through repairs and modernization provided under the act; also appraiser's recommendations as to additions or deductions to or from 1926 values for any subsequent pronounced neighborhood changes. This provision of the act was made to preserve individuals' and communities' equities, and to stimulate reemployment.

From this amount (the 1926 valuation) the Corporation would deduct a percentage differential from these valuations, periodically reconciled, as best could be, to several factors; the purposes of the act; the long-range term of an amortizing obligation; the expansion of shelter requirements, when "doubling up" was eliminated by reemployment. The future valuation of the dollar would be another factor to weigh, and, lastly, by the cost of reproduction, based on figures judged as representative when construction of homes can become general again on some basis other than paper.

I had suggested that this differential be 15 percent to start with, and contended that this is the only method for extensive appraising, that must be widely delegated, that contains practical elements of control, and can be applied with any degree of science in such times as these.

From a starting point it is definitely ascertainable at least. The field appraiser can find much in any neighborhood, through sales records, etc., to enable him to verify his own computations of values of 1926.

ONLY EXPERT APPRAISERS SHOULD BE UTILIZED

I am presupposing that every appraiser employed in the field should have been a duly qualified realty appraiser as far back as 1926, and the compensation should be fixed to command the services, in all cases, of a recognized, experienced, responsible real-estate appraiser, whose actions are subject to the review of a responsible, established realty organization, of which he has been a member since then. Community interests demand this protection as definitely as they demand that only responsible lawyers, members of the bar, should be employed as closing attorneys.

PUBLISHING APPRAISALS A CHECK TO RACKETEERING

Now, as a check against fraudulent appraisals, and also, what is quite as important, that their accuracy may be checked, I would further suggest that every appraisal should be published in at least one county newspaper, giving valuation as of 1926, with amount added or deducted for neighborhood change; property location, with the appraiser's name. The percentage differential modifying the field appraiser's valuation, determined solely by higher officials in the Home Owners' Loan Corporation, could be kept a matter of privacy.

This would effectually prevent inequalities or the shadow of doubt being cast upon the Home Owners' Loan Corporation, its officials or appraisers, as their appraising would be an open book, susceptible of review. In fact, it would be decidedly wholesome to invite constructive criticism by a prescribed method of review. In the ultimate, 1926 values can be quite accurately verified. The differential, likewise, can be determined with some scientific accuracy by informed authorities, though certainly not by the average field appraiser.

Appraisals made as of today, on any other basis, except as to the choice of a prepanic year for base, which is optional with a varying differential, are but mere matters of opinion, based largely on depressive influences, and it is very easy for an expert appraiser to understand how a field appraiser, left to judge such questions as "What would be the fair value of the land today?"—when there has been no market for land for several years, or to set up reproduction costs with the factor of financing costs unascertainable, to arrive at figures either absurdly high or low, causing his motivation to be misunderstood.

I contend, and have from its introduction, that the three-way method of appraising set up by the board does not fulfill the intent of schedule H. It

is a formula that decidedly calls for the most normal conditions to possibly operate with any accuracy. Rising building costs; the lack of financing, preventing competitive building in any volume; the missing factor of financing costs, and the lack of a market prevent the utilization of such old-time guides to properly interpret intrinsic values in a changing economic era, an era in which unprecedented legislative powers have been conferred upon our administration to obtain the price levels of 1926, announced by President Roosevelt as "a national objective."

SUMMARIZING AMENDMENTS, APRIL 1934

(Written May 20, 1934)

The amendments to the Home Loan Act of 1933, signed by President Roosevelt April 28, 1934, unconditionally guaranteed home-loan bonds, reduced interest yield to bondholder to 3 percent, but did not, however, reduce the interest charge to the homeowner, and provided $200,000,000 for repairs and modernization.

This "modernization" addition to the repair clause in the original act is most important. The distressed mortgage properties are the ones most in need of heavily accrued repairs and modernization to aid in rental or sale. The National Housing Act provides renovizing on a strict credit basis. Naturally, distress cases could not qualify on a credit rating.

REDEMPTION OF FORECLOSED HOMES

The amendments also broaden the scope where a homeowner may redeem his home already foreclosed or given up by "voluntary deed", extending the period backward to January 1, 1930.

This would indeed be but a hollow gesture of retribution to those broken families unless additional home-loan bonds are furnished.

The mortgage refinance insurance plan in the National Housing Act limits loans on existing structures to 60 percent of value. It is plain that no loaning group, in private enterprise, will jeopardize their 20 percent insured limit by taking distress cases the 60 percent loan limitation would be insufficient to cover.

Already heavy holders of foreclosed homes are planning to refinance the sale of these homes in order to sell to new buyers. Our board has done much to discourage efforts springing up to so amend the Home Loan Act.

It is imperative that protection be established to these owners who have been foreclosed that will effectively prevent any such governmental refinancing, directy or indirectly, without setting up a proviso that before a foreclosed home can be so refinanced, satisfactory proof shall be furnished with an affidavit from the foreclosed owner that he does not care to avail himself of governmental mortgage aid.

I earnestly advocate that such a provision be incorporated in the National Housing Act and that loans on existing structures under the insurance plan shall have the same percentage of value as that established for new construction.

Addressing the convention of the New York State Association of Real Estate Boards at Sagamore, Lake George, D. E. McAvoy, secretary of the Home Mortgage Advisory Board, announced the receipt of the following telegram from United States Senator Robert F. Wagner:

WASHINGTON, D.C., *September 18, 1933.*

D. E. McAVOY,
Secretary Home Mortgage Advisory Board,
33 Liberty Street, New York.

Re home-loan bonds.

Your letter enlarging on our conversations relative to the establishment of mutual-guarantee companies received. The idea strikes me as worthy of serious consideration. Suggest that you get the definite views of your chairman, Mr. Frank A. Vanderlip, which I am sure will be of great value, because of his experience in this field. As you state, it is all important that these mutuals

should be protective, noncommercial institutions, regulated by State or Federal control. I shall be glad to submit to the Home Loan Board your proposal for their consideration.

ROBERT F. WAGNER.

"The plan of mutual guarantee companies referred to in my letter", stated Mr. McAvoy, "is a plan I proposed last Sunday for Senator Wagner's viewpoint. It was modeled by me from comments that I have had from time to time regarding the marketing of the Home Owners' Loan bonds, from Senator Wagner, Mr. George V. McLaughlin, president of the Brooklyn Trust Co., Mr. Robert D. Elder, our vice chairman, and it would employ a plan somewhat similar to that outlined by Mr. Frank A. Vanderlip in the Saturday Evening Post last fall for mutual investment companies.

"These mutual guarantee companies operating in each State under State supervision united in National combination, and following Mr. Vanderlip's suggestion in his mutual investment idea, to be administered by experienced public-minded men on a nonprofit basis.

"The idea is to widen the market for the Home Loan bonds, so as to include that large class of individual investor and trustees who would prefer a low yield with absolute assurance of principal safety. Home Loan bonds are guaranteed by the United States Government as to interest payment and under this plan a guarantee reserve would be established to remove any doubt as to principal payment. The quarantee reserve would be built up by withholding 1 percent interest per annum—paying the bondholder 3 percent. This 1 percent per annum would be reinvested in stipulated sound securities and compounded for the 18-year period when they would accrue to a point between 20 and 30 percent of the principal of the bonds guaranteed, according to rate of reinvestment.

"Upon liquidation of the Home Owners Loan Corporation, if the bonds showed any loss, the bondholders, under the mutual plan, would be protected, the fund itself at that time being distributed back to the participants.

"Since the mortgage collateral back of the bonds, averaging about 65 percent of the appraised value of the mortgaged homes, call for regular small repayment monthly, so that the mortgage is entirely paid off in 15 years. At the end of 10 years only one third approximately of the principal remains unpaid, so it can be realized that not only is there no likelihood of loss, but that such a reserve contemplated is not only ample but resembles more a building up of an endownment fund for each participant, which could not successfully be done individually.

"Unquestionably bonds sold with such accumulated rights during the 18-year period would command a constantly increasing premium."

In the address following, "The Social and Economic Possibilities of the Home Loan Act of 1933", Mr. McAvoy said:

"The Home Owners Loan Act of 1933 is now simmering in the crucible of test. Shortly the crystallized result will indicate to suffering millions the adequacy of the act. It is confidently hoped that its administrators will strike with the boldness and courage requisite to make it adequate if the blight of foreclosure is to be obliterated—a blight attacking the home world in such wholesale fashion that complete destruction of the Nation's finest asset was in prospect.

SUGGESTION OF D. E. M'EVOY

The following are the suggestions that I respectfull make and amendments shaped for the protection of home ownership, unfortunate foreclosed home owners, the safety of the investing public, and to eliminate the possibility of our Government later being faced with the possibility of any moral obligation in connection with the issuance of the bonds or debentures issued by national mortgage associations in the event of loss exceeding the 20 percent insurance.

1. Title I, page 6, section 5 (a): Include under insurable provision, mortgages on homes (for not more than four families) that, even if not "owner-occupied" are held as homesteads. Limit the "low-cost housing projects"—now eligible, permitting flat-house construction even of the slum-clearance type—strictly to dwellings (for not more than four families), which while they may be temporarily rented, are to be designed so that they may be eventually sold as individual homes.

2. Title I, page 6, section 5 (b): That loan provisions on existing structures and new structures should be alike as to percentage of loan on valuation and volume of aggregate loans of each in relation to Corporation's capital stock. Act now permits 80 percent on new structures and but 60 percent on existing structures with a serious limitation on existing structures as to the aggregate amount that is not imposed upon the new. There should be absolutely no discrimination in these regards. Appraisals of valuation will equalize. It must be remembered that Home Owners' Loan Corporation is limited and can only care for specific cases of distress. There are innumerable home owners capable of paying carrying charges, whose mortgages as to principal will be called with recovery as moratoriums are lifted. Any national plan to succeed must afford protection to all home owners.

3. Title I, page 8, section 7: New loans for new construction should be made only in accord with true needs as established by a running inventory of community requirements, in the making of which and observing of—various interests beside the Federal Government should participate, including all loaning institutions. (Entered into Senate Record address at New York Mortgage Conference, Feb. 1, 1934, pp. 65 to 71 of pamphlet, regarding this suggestion and including standards for better construction and design.)

4. Title I, page 8, section 7: That act should include regulations for scientific appraising. It should stipulate that only expert real-estate appraisers, and only such so qualifying as far back as 1926, should be utilized. Also should provide that all appraisals, with appraiser's name and affiliations, shall be a matter of public record. Such a practice, in my opinion, should be immediately adopted by the Home Owners' Loan Corporation.

5. Title II, page 11, section 201: That national mortgage associations should be permitted to loan only on mortgages on homes for not more than four families. If permitted to deal in mortgages that are not eligible for insurance, there is that danger, because of their name, that some of the investing public might invest in bonds or debentures on issue that were not insured, regardless of what statement to the contrary might appear upon their face, with the belief that such an association only dealt in governmental insured types. We should not permit a repetition of the guaranteed mortgage bond and certificate debacle.

6. Title II, page 13, section 202 (3): That no mortgage should be insurable with less than a 20-year maturity, amortizing monthly, with a waiver of 3 years from date of enactment of principal payment, provided mortgagor is not in default otherwise.

7. Title II, page 13, section 207 (3): That all national mortgage associations should be mutual organizations, operated without profit, for the sole benefit of home owner and the investor in the bonds or debentures that may be issued up to 15 times the capital stock or the current value of the insured mortgages held by it. These mutuals should be along the line of investment mutuals outlined by Mr. Frank A. Vanderlip last year in the Saturday Evening Post.

8. Also five or more home owners should have the privilege, where they cannot secure mortgage refinancing on existing structures, to form home-loan associations identically as provided in the Farm Loan Act, as amended, for the formation of farm-loan associations. After meeting specified requirements, appraisals, etc., then, fully guaranteed home-loan bonds are to be advanced by the home-loan bank up to the extent of their mortgage obligations, liens, repairs, etc., in the matter now provided in the Home Loan Act, but such advances not to exceed 80 percent of valuation in each case.

9. Title II, page 16, section 209: This clause seriously impairs the redemption clause of the Home Loan Act of 1933 and is a serious blow to owners that have been foreclosed. Under this section any $5,000,000 national mortgage association may purchase foreclosed homes, which they may temporarily rent or sell. The power of such acquisition is of course tremendously broadened by the fact that such association may sell bonds or debentures up to 15 times their capital stock. These bonds, issued against insured mortgages, sponsored by the Government as to insurance, will find as eager an investing public as guaranteed mortgage certificates once did. The Home Loan Act has just been amended as to this redemption feature, now including homes foreclosed as far back as January 1930. If section 209 is permitted to stand, this provision in the Home Loan Act will become a hollow gesture.

I therefore recommend that section 209 be amended by the provision that before any home mortgage foreclosed since January 1930 can be refinanced, under this insurance plan or through any other governmental agency, that the

title holder of the premises shall produce an affidavit from the foreclosed owner that he does not care to avail himself of governmental aid to redeem his home and the fact that he has had full explanation of his privilege under Home Owners' Loan Corporation. The only way the title holder can now secure refinancing, so necessary to any sale, is via the Home Owners' Loan Corporation, but it must come through the reinstatement of the foreclosed owner. This is a restitution that our President and Congress intended, and it should under no circumstances be violated through governmental aid.

10. Title III, page 21, section 302 (b): That the management of the Insurance Corporation should be more diversified, with at least one member purely a representative of the home owner, to be appointed by the President of the United States.

The renovizing plan with loans up to $2,000, while insured the same as mortgages against losses up to 20 percent of the total of credit extended, do not call for any collateral. They are made upon the credit standing of the individual. Therefore, I do not look for any great results from this plan, and particularly not right away, for it deals with a decidedly minority field.

NATIONAL HOUSING ACT

THURSDAY, MAY 24, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on yesterday, in room 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Barkley, Bulkley, Bankhead, Goldsborough, and Couzens.

The CHAIRMAN. The committee will come to order. If Mr. Farrington, representing the Home Owners' Protective Enterprise, will come forward and take a seat at the table, opposite the committee reporter.

Mr. FARRINGTON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Farrington, state your name, residence, and occupation.

STATEMENT OF MARVIN FARRINGTON, CHEVY CHASE, MD.; LAWYER, WASHINGTON, D.C.

The CHAIRMAN. For whom do you appear now?

Mr. FARRINGTON. For the Home Owners' Protective Enterprise.

The CHAIRMAN. What is that organization?

Mr. FARRINGTON. That is a noncommercial organization, national in scope, of home owners throughout the United States.

The CHAIRMAN. Who are the officers of the enterprise?

Mr. FARRINGTON. Mr. Chairman, I am not an officer of that organization and do not have at my finger tips the personnel or set-up. But that information will be given by the witness to follow me.

The CHAIRMAN. It will be given by whom?

Mr. FARRINGTON. It will be given by Miss Obenauer, who is joint chairman of the board of governors of the Home Owners' Protective Enterprise.

The CHAIRMAN. Very well. You have examined the pending bill (S. 3603), I take it?

Mr. FARRINGTON. Yes, sir.

The CHAIRMAN. And are familiar with its terms?

Mr. FARRINGTON. Yes, sir.

The CHAIRMAN. We will be glad to have your views about it. You may proceed in your own way.

Mr. FARRINGTON. For the sake of brevity, to save the time of the committee, with your permission I think I can read very briefly my comments upon the bill.

The CHAIRMAN. Proceed in your own way.

Mr. FARRINGTON. I am a resident, home owner, and taxpayer of Montgomery County, Md., and for the past 27 years have been engaged in the practice of law, with considerable experience in the making of unamortized real-estate mortgages on improved and unimproved property. At the request of the Home Owners' Protective Enterprise I have studied Senate bill no. 3603, and am here to discuss it solely from the viewpoint of the home owner.

From its title it purports to aim at improvement of Nation-wide housing standards, and among other things, to improve conditions respecting home-mortgage financing.

The salient features of the bill are the creation of a home-credit insurance corporation, the Federal Savings & Loan Insurance Corporation, and provisions whereby private persons may create so-called "national mortgage associations", which shall be under the supervision of the Federal home bank. All three of the agencies created may be designated as depositaries of public funds, except customs receipts, and, except as to real estate, shall be exempt from all taxation by the United States, while both insurance agencies are also exempt from State taxation.

Title I sets up the Home Credit Insurance Corporation, with a limited capital of 200 millions, but under section 6 it is given plenary power, subject only to approval of the Secretary of the Treasury, to issue bonds and other securities without limit in amount, all of which securities are to be unconditionally guaranteed as to both principal and interest by the United States.

In this connection I stress those provisions of the bill whereby each of the insurance agencies so to be created is empowered to determine its expenditures and the manner in which they shall be incurred, allowed, and paid without regard to any other law governing the expenditure of public funds.

Thus far, as I have followed the testimony for the past week, no witness has brought to the committee's attention that particular provision, which, I think, is extremely important from the standpoint of all citizens and taxpayers, if this bill is to be enacted into law as drawn.

A further provision allows the Home Credit Insurance Corporation and the Federal Savings & Loan Insurance Corporation to select its personnel without regard to civil-service examinations.

My object in mentioning that this morning is because Mr. McAvoy on yesterday was the first witness to appear as a representative of home owners, not interested in any financial agency, and he referred to the character of certain appraisals in the home-loan banks, and I just call the committee's attention to the provision here, which is precisely, I believe, as it appears in the Federal Home Loan Bank law.

Section 3 empowers the Home Credit Insurance Corporation to insure every type of financing companies from banks to installment lending companies and personal-finance concerns, including 42 percenters, as shall apply and be found eligible, against a maximum 20-percent loss such concerns may sustain as a consequence of their loans or extensions of credit to home owners and others to enable the latter to make alterations, repairs, and improvements. This insurance feature is limited to 20 percent of any one finance company's l ans, and is further limited by requiring that no single loan so insured shall be for an amount in excess of $2,000.

While the last paragraph of section 3 may have as its object a protection of the home owner or other person as regards the interest which he is to pay the installment-selling roofer or contractor making repairs, it is utterly ineffectual in that respect, and for this reason: The members of the committee are practical business men and of their own knowledge know or can easily learn the fact that a nationally known roofing company is now advertising that it has a fund of $1,000,000 to lend home owners for putting new roofs on their homes. That concern does not tell the home owner who foots the bill that the loan or extension of credit he gets will be at approximately 23 percent on a 1-year basis, nor will the officials of the Home Credit Insurance Corporation discern the interest rate when, under the last paragraph of section 4, the Home Credit Insurance Corporation is asked to lend the full face value of such a loan, because the note evidencing the debt or advance of credit, signed by Mr. Home Owner, will not disclose either the method of computation by which its face amount was ascertained nor the rate of interest charged. In other words, it will be a simple note, without interest, but it will provide for an attorney's fee of 15 percent in the event of suit thereon.

Digressing a moment from the statement which I have been reading, I now desire to offer for the record a pamphlet entitled "A million dollars to lend", prepared by the Johns-Manville Co., and to call your particular attention to two or three paragraphs in this pamphlet.

On page 4, of the pamphlet, under the heading "No rate chart", it reads thus:

> Under the simple finance rate of 1 percent per month it is not necessary for the contractor to refer to a rate chart to figure the finance fee. He merely arrives at his cash price, deducts the down payment and adds 1 percent for each month over which the note is to run.

On page 6 of the pamphlet they tell you how the job is figured, and in the 2 or 3 pages following give you a facsimile copy of the agreement, notes, and the investigation. In the latter part of the statement appear some questions and answers. I should remind you that this pamphlet goes not to the home owner but to the roofing contractor throughout the United States. The first question is this:

> Why is home-improvement work more profitable than installations in new buildings?

Which is followed by this answer:

> Because there is less competition. Reroofing work, for example, is developed largely by the contractor himself and usually his price is the only one submitted.

The second question is:

> Why is home improvement work more stable from a credit standpoint than installations in new buildings?

And it is followed by this answer:

> Because the owners of old buildings are usually in better financial condition. Their equities in the properties are known and usually sufficient safeguards. New building is frequently attended by financial difficulties, such as failure of the general contractor to estimate his costs properly or failure of the mortgage financing.

On page 14 of the pamphlet I call attention to more questions and answers, the first question being:

> Why must both husband and wife sign the notes?

And the answer is:

Because each has dower rights in the real property of the other, and in the event of the death of one the property could not be sold to satisfy claims until the death of the survivor. At the same time, the signatures of both husband and wife prevent the transferring of title from one party to the other in order to escape payment of debts.

The next question is:

Why will not a note with a past-due installment be acceptable?

And it is followed by this answer:

Because Johns-Manville, in purchasing the notes before installments mature, becomes an innocent purchaser before maturity and, as previously outlined (see above), the defenses which the purchaser could make against the note in the hands of the contractor, such as faulty workmanship, and so forth, cannot be used as an excuse for nonpayment against the innocent purchaser before maturity. This is one of the important reasons why contractors should not carry their own time-payment paper. If Johns-Manville purchased a note with a past-due installment it would not be an innocent purchaser before maturity and all of the defenses which could be made against the contractor could be made against Johns-Manville. This protects the contractor against unwarranted claims.

And on page 15 of the pamphlet we find this question:

How should the price for home improvements be quoted?

And it is followed by this answer:

Always be ready to quote the deferred-payment price first. The low down payment and small monthly payments will help to close the sale. If the customer then desires to pay the total amount at once a cash discount can be made. This discount may vary from 5 percent to the cost of the financing depending upon what practice you think best.

And the last question in the pamphlet, appearing on the last page, is:

Are there any additional fees of any nature whatever for credit investigation, filing and inspection of notes, and so forth?

Which is followed by the answer:

There are absolutely no charges of any nature to the contractor.

The CHAIRMAN. Mr. Farrington, do you wish the whole pamphlet to appear in the record of our hearing?

Mr. FARRINGTON. I should like to have it so appear, if you will.

The CHAIRMAN. Very well. Let it be made a part of the record.

(The pamphlet entitled "A Million Dollars to Lend" and at the lower point on the cover appearing the words "The new Johns-Manville Nonrecourse Deferred Payment Plan", is here made a part of the record, as follows:)

A MILLION DOLLARS TO LEND! THE NEW JOHNS-MANVILLE NONRECOURSE DEFERRED PAYMENT PLAN

A MILLION DOLLARS TO LEND TO PEOPLE WHO BUY FROM YOU

(Charts accompanying this pamphlet will be found on pp. 431–435)

Two years ago Johns-Manville announced a deferred payment plan to its dealers—a plan operated by Johns-Manville itself, independent of finance corporations or other lending agencies. This plan has brought amazing results—has been instrumental in closing hundreds of thousands of dollars worth of business for you and your carpenter-contractor customers. It has proved an indispensable tool in selling home repairs and remodeling during times like these. Now Johns-Manville has taken another important progressive step—goes all the way—and makes the J-M deferred payment plan a nonrecourse plan. This new plan is simplicity itself. Not even a rate chart is necessary. It involves no cost of any nature to dealer or contractor, Johns-Manville assumes all the expense, including the credit risk.

The news of this easy way to buy home remodeling is being told to your customers in a Nation-wide advertising campaign, and you can easily reap its benefits. Read over carefully the details of the plan in this booklet. Then apply today to the nearest J-M office (see inside back cover) for an application form and any further details on this plan which you may want. The Johns-Manville representative will be glad to help you get started.

DEFERRED PAYMENTS—BUILDERS OF EXTRA PROFITS

We have long recognized the vital need for a sound deferred payment plan, especially adapted to the requirements of the building materials industry. It has required much time, investigation and research to provide a plan which would overcome the many objections to hitherto existing financial programs. At last it's here—a deferred-payment plan operated and financed entirely by the manufacturer with no expense of any nature to dealer or contractor, and with the manufacturer assuming the full credit risk.

No contingent liabilities—no recourse to dealer or contractor. He can't lose.

Sound deferred-payment plans have long been recognized as builders of extra sales volume and profits on durable goods. As you well know, many of the important industries are today merchandising from 50 percent to 90 percent of their entire production on deferred payments. But while American industry has already recognized tremendous sales possibilities through deferred payments some leading economists have questioned the soundness of these plans from a financial standpoint. Now, for the first time, deferred-payment selling has passed through the acid test of subnormal business conditions and has emerged triumphant. The records of the Nation's leading finance companies show that, even during depression, deferred payments are met with remarkable promptness and with a minimum of bad debt losses.

A very large and increasing percentage of homes are purchased with a comparatively small amount of cash and financed through one or more mortgages with provision for the reduction of the principal through periodic payments.

If it is sound for a man to purchase his home on deferred payments—and no one will deny that it is—it is at least equally as sound for him to provide for the proper maintenance or improvement of his home in the same manner. When he does so, he does not really make an expenditure but adds an investment, maintaining or increasing the value of his property as well as adding to his comfort.

From the industry standpoint there is every reason for using deferred-payment selling widely in the field of home improvements. First, because there is a truly tremendous market in the remodeling field, the surface of which has been barely scratched—a market which ordinary sales methods cannot hope to touch.

Second, the financial responsibility of a home owner is usually considerably more reliable than that of a man who rents his home. The mere fact that he owns his home and has a reasonable equity in it is evidence of industry, thrift, and permanence.

Third, the home owner has already learned the advantages of deferred payments through the active solicitation and advertising of the manufacturers of electrical appliances, automobiles, radios, etc., and is, therefore, entirely receptive to the presentation.

There never has been a time in the history of the building-material industry when there has been so great an opportunity for the sale of building materials for repairs and remodeling as there is today. Much needed repairs and greatly desired improvements have been deferred during the prolonged period of business decline to the point where action has become a question of absolute necessity. Proper financial arrangements are all that is necessary to convert this dormant market into immediate and profitable sales.

Read what Johns-Manville, interested only in assisting you to sell more Johns-Manville building materials—not in making a profit from the financing—has done to increase your business and insure its profits.

Johns-Manville accepts the leadership expected of it in the building-materials field and offers you for the first time a sound financing plan, backed by its entire resources and its many years of experience in the building field.

WHAT THE PLAN IS

1. *Johns-Manville does the financing.*—Not a disinterested finance company concerned only with making a profit from the financing. Johns-Manville's interest is in creating extra sales for its distributors and not in profiting through a finance plan.

2. *No hold-back of any nature.*—You are advanced 100 percent of your contract with the home owner immediately upon completion of the job. The Johns-Manville deferred payment plan is, therefore, your cash customer.

3. *Simple forms.*—There are no complicated forms packed with lengthy legal phrases to build up sales resistance.

4. *Johns-Manville investigates the home owner's credit.*—This tremendous step forward, in effect, adds to your staff, at no expense to you, the services of highly trained credit managers. These men, thoroughly experienced in the building-material field, are interested in finding ways and means to approve credit with safety in order to promote the sale of Johns-Manville materials for you.

5. *Johns-Manville makes the collections.*—At its own expense.

6. *No legal expense.*—The Johns-Manville Legal Department handles all the legal details.

7. *No recourse to contractors.*—The Johns-Manville plan is a nonrecourse plan, there being no liability, actual or contingent, on the part of the contractor with respect to the credit risk. Johns-Manville assumes, not only all of the investigation expense, the legal expense, and the collection expense, but also assumes al of the credit risk. The contractor's only responsibility in the job is for his workmanship and, in the protection of responsible dealers and contractors against unfair competition, each deferred payment contractor is required to execute a guarantee of his workmanship. This takes the form of a simple agreement to adjust satisfactorily any complaints concerning his workmanship, or, failing to do so, to repurchase the note. Without this protection irresponsible contractors would be encouraged to cut prices and do slipshod work since they would have no responsibility in the job after it was completed. Johns-Manville checks the reputation for workmanship of each contractor carefully before he is approved to operate the deferred payment plan, and this additional safeguard is added for the responsible contractor's protection.

8. Small down payment—as low as 10 percent of the total price.

9. Terms as long as 24 months on deferred balances in excess of $500; deferred balances up to $300—maximum 12 months; deferred balances $301 to $500—maximum 18 months; deferred balances in excess of $500—maximum 24 months.

10. Low finance rate—based upon 1 percent per month.

11. No rate chart—Under the simple finance rate of 1 percent per month it is not necessary for the contractor to refer to a rate chart to figure the finance fee. He merely arrives at his cash price, deducts the down payment, and adds 1 percent for each month over which the note is to run.

12. The minimum finance charge is $12.—It is necessary to establish a minimum charge in order to cover the costs of credit investigation, legal fees, etc. This is not an additional charge, however, as in the case of some finance plans. There are no additional charges of any nature and the minimum charge applies only where the application of the standard rate used throughout the Johns-Manville plan would result in a charge of less than $12.

WHAT YOU DO [1]

First: You submit a financial statement to Johns-Manville, which covers only the ordinary banking requirements, as shown in the financial statement on page 7, and execute the guaranty of workmanship as reproduced on page 11. You send the statement and guaranty of workmanship to the Johns-Manville district office with whom you do business. You will be notified promptly by Johns-Manville of your qualification to use the plan. Upon receipt of this notification, you are ready to extend the Johns-Manville deferred-payment plan to your customers.

Second: After you have made your estimate of the job covering material, labor, overhead, and profit—in other words, have arrived at the amount which you would quote for a cash job—you deduct the down payment (at least 10 percent of the total price) and add to the balance 1 percent for each month over which the note is to run. This will give you the amount of the note, which, together with the down payment, will equal the deferred-payment price, which you will quote. This will represent your cash estimate plus the finance charge.

Third: Submit your estimate to your customer on the "agreement" form shown on page 8 and have your customer sign it. This form is available to contractors in a handy order booklet providing for an original and three carbon

[1] The actual operation of this plan is carried out by the dealer or contractor who applies the materials. The applier of the materials, therefore, must thoroughly familiarize himself with the few simple operations necessary. It is not necessary for the dealer who only sells the materials to sign or endorse any of the forms described unless he has arranged for the labor involved in the job or unless he finds it practical to assume responsibility for the workmanship.

copies. One is a tissue copy, which remains in the order book, one is for your customer, one for your files, and one to be forwarded to us, as outlined below.

Fourth: Fill out the purchaser's statement (the bottom part of the perforated triplicate form, shown on p. 9), collect your down payment, complete the contractor's statement of transaction on the back, detach and mail this part of your triplicate form, together with a signed copy of the "agreement" to the nearest Johns-Manville district office, retaining the down payment. Do not proceed with the work until you have been notified of Johns-Manville's approval.

Fifth: When the job is completed, have the customer (if married, both husband and wife) sign the note (the top section of the perforated triplicate form shown on p. 9) and the completion certificate (the middle section of the triplicate perforated form, p. 9). Date the note and completion certificate the same day, endorse the note on the reverse side (see p. 10), and forward both the note [2] and completion certificate to the Johns-Manville district office.

Last: Promptly upon receipt by Johns-Manville of the note and completion certificate, a check for the full amount financed will be forwarded to you. This check, plus the down payment, pays you in full for your job.

HOW A JOB IS FIGURED		*You receive*
Your estimate of total job	$300. 00	
Down payment (deduct)	30. 00	$30. 00
Balance to be financed	270. 00	
Purchaser desires to pay for job in 12 equal monthly installments. Add 1 percent for each month, or 12 percent	32. 40	
Purchaser signs note for	302. 40	
Finance charge included in note	32. 40	
On receipt of note Johns-Manville pays you	270. 00	270. 00
You receive (full cash price of job)		300. 00

SOME QUESTIONS AND ANSWERS

Johns-Manville welcomes your questions relative to the operation of this deferred payment plan. Here we give the answers to some of the questions which will undoubtedly come to your mind, and we will be glad to clarify any other point that may occur to you at any time.

Q. Why is home improvement work more profitable than installations in new buildings?—A. Because there is less competition. Reroofing work, for example, is developed largely by the contractor himself and usually his price is the only one submitted.

Q. Why is home improvement work more stable from a credit standpoint than installations in new buildings?—A. Because the owners of old buildings are usually in better financial condition. Their equities in the properties are known and usually sufficient safeguards. New building is frequently attended by financial difficulties, such as failure of the general contractor to estimate his costs properly or failure of the mortgage financing.

Q. Can the Johns-Manville plan be applied to work in apartment houses, hotels, theaters, churches, education institutions, etc.?—A. It can, so long as the financial responsibility is satisfactory to the Johns-Manville credit department.

Q. Will the use of the deferred-payment plan tie up my capital?—A. No; on the contrary, it will relieve you of the burden of carrying slow accounts, receivable or making difficult collections, for every sale made on the Johns-Manville deferred-payment plan is a cash sale.

Q. Will the use of the deferred-payment plan have any additional effect upon my profits?—A. Yes, indeed. There is an added profit in using the deferred-payment plan—the profit derived through doing business on a cash basis. This avoids the possibility of being obliged to pass up cash discounts on your purchases or accounts payable because of the burden of carrying slow accounts on your books. The Johns-Manville deferred-payment plan not only places you in a position to secure additional and profitable business but provides the cash with which to earn added profits.

[2] NOTE.—It is important that you do not erase or alter the note. Notes with alterations or erasures cannot be accepted by us. If it is necessary to correct a note, prepare a new form.

Q. What qualifications must a contractor have to qualify for the Johns-Manville deferred-payment plan?—A. He must sell Johns-Manville products. He must be known for good workmanship and fair dealing. He must file an acceptable financial statement.

Q. Why should not a contractor or dealer handle the deferred-payment plan himself and carry the home owner's note?—A. In the first place, in order to take every advantage of the large potential volume of business in this field the contractor would require a considerable cash investment. To do this he may tie up his own finances to such an extent that he cannot earn cash discounts on his purchases and the interest rate represented by the ordinary 2 percent discount for cash is in excess of the Johns-Manville finance charge.

Second. The deferred payment credit field is highly specialized and bounded by many pitfalls into which the contractor may fall, and suffer large losses, unless he has a completely organized credit department, thoroughly familiar with deferred-payment credits and financing. Rapidly changing real-estate conditions and State laws affecting real property are only two of the many factors which must be taken into consideration.

Third. A contractor financing his own jobs is subject to claims of unscrupulous parties which might prevent his collecting. Many of these claims which can be set up as a defense to the contractor's account cannot be used against Johns-Manville. For example, an unscrupulous person could refuse to pay the contractor, claiming the job was not right, and the contractor would have to sue, gambling upon what a jury would decide. This claim cannot be used against Johns-Manville, for if Johns-Manville accepts the note it is in the position of what is known legally as "holder in due course" and a claim of unsatisfactory workmanship cannot be set up as a defense against a "holder in due course."

Q. Will the Johns-Manville deferred payment plan finance jobs in which Johns-Manville materials form only a part of the total job?—A. Yes; provided that the extra work does not involve the installation of materials competitive to those of Johns-Manville manufacture. For example: A home owner might be sold a reroofing job, and in addition, other repairs, involving the use of metals, wood, plastering, etc. In such case the Johns-Manville deferred payment plan will finance the entire job. There must be a minimum of 25 percent of Johns-Manville materials in the total job although exceptions to this minimum may occasionally be made for good and sufficient reasons.

Q. Why must both husband and wife sign the notes?—A. Because each has dower rights in the real property of the other, and in the event of the death of one the property could not be sold to satisfy claims until the death of the survivor. At the same time, the signatures of both husband and wife prevent the transferring of title from one party to the other in order to escape payment of debts.

Q. Why will not a note with a past due installment be acceptable?—A. Because Johns-Manville, in purchasing the notes before installments mature, becomes an innocent purchaser before maturity and, as previously outlined (see above), the defenses which the purchaser could make against the note in the hands of the contractor, such as faulty workmanship, etc., cannot be used as an excuse for nonpayment against the innocent purchaser before maturity. This is one of the important reasons why contractors should not carry their own time payment paper. If Johns-Manville purchased a note with a past due installment it would not be an innocent purchaser before maturity and all of the defenses which could be made against the contractor could be made against Johns-Manville. This protects the contractor against unwarranted claims.

Q. Why will you not finance jobs without a down payment?—A. If a purchaser is unable or unwilling to make a small down payment, it does not promise well for his ability or willingness to meet the monthly payments. At the same time, the larger the equity the purchaser has in the purchase, the greater the probability of his meeting subsequent payments. The experience of finance companies handling automobile paper indicates that after the third payment has been met there is practically no danger of default on subsequent payments.

Q. Why is it necessary for a purchaser to answer all the questions on the purchaser's statement?—A. As you know, the credit standing of the purchaser must be investigated as a protection both to Johns-Manville and the contractor. The information given on the purchaser's statement aids materially in speeding up the investigation, allowing the best possible service to both contractor and purchaser.

Q. Can a dealer, under the Johns-Manville deferred payment plan, assure himself of payment by a contractor for material purchased to do a deferred

payment job?—A. Yes; in such case the dealer has the contractor endorse the note and turn it over to him. The dealer then endorses it without recourse and forwards all papers to the Johns-Manville district office. Upon receipt by the finance office, a check is forwarded to the dealer, who then deducts the selling price of the materials and remits the balance to the contractor. In this manner the dealer can assure himself of payment by a contractor whose finances may be limited, making the sale for both the dealer and the contractor on a cash basis and without any liability on the note being assumed by the dealer, since his endorsement is without recourse, i.e., without responsibility for payment of the note.

Q. If the purchaser wants to anticipate payment of his note before the final installment, does he get a rebate?—A. Yes; in such case the purchaser should communicate with the Johns-Manville district office, at which time he will be quoted the balance to be paid, which will include a refund for the unexpired time of his note, less a small handling charge.

Q. If a dealer does not supply material how can he benefit from the J-M deferred payment plan?—A. He can increase his volume of sales to his good contractor customers by encouraging them to use this plan. He can control and improve the credit of his contractors, minimize his collection difficulties and potential credit losses, for every job handled under the J-M plan represents a cash sale to the contractor.

Q. Under this plan, can materials only be sold to a home owner who may apply them himself?—A. Yes.

Q. How should the price for home improvements be quoted?—A. Always be ready to quote the deferred payment price first. The low down payment and small monthly payments will help to close the sale. If the customer then desires to pay the total amount at once a cash discount can be made. This discount may vary from 5 percent to the cost of the financing, depending upon what practice you think best.

Q. Are there any advantages in the use of the Johns-Manville name in selling the deferred payment plan to the consumer?—A. Yes. It has a favorable reflection in the purchaser's mind, in that he realizes that it is not necessary for him to do business with an industrial loan company or other finance organizations, thus assuring him that he is not paying an exorbitant finance fee. In addition, the fact that Johns-Manville, the manufacturer of the material, will finance the installation, is an additional warrant of the material's quality.

Q. Are there any additional fees of any nature whatever for credit investigation, filing and inspection of notes, etc.?—A. There are absolutely no charges of any nature to the contractor.

JOHNS-MANVILLE BUILDING MATERIALS TO IMPROVE THE HOME AND TO AID INDUSTRY

Founded over 70 years ago, Johns-Manville has taken a prominent part in supplying various kinds of building materials, and has long specialized in adapting asbestos to the particular needs of builders, sound-control materials to the needs of churches, auditoriums, hospitals, and offices, and insulating materials to every type of insulation problem. As a result, Johns-Manville products have set the standard for quality and won a lasting reputation for long service, at reasonable cost. Everywhere about the home, from roof to cellar, inside and out, Johns-Manville products are used—Johns-Manville rigid asbestos shingles of a wide variety and distinctive colors and color combinations; J-M asphalt shingles, made to fit a more economical budget; J-M rock-wool home insulation, easily installed in old homes as well as new; J-M roll roofings and built-up roofings; J-M improved asbestocel—insulation for furnace and furnace pipes, etc.

There are many other Johns-Manville products for use in the home and in industry which cannot be described here. But it is common knowledge that the satisfaction afforded by one Johns-Manville product means the equally dependable performance of all. Whether you purchase Johns-Manville shingles for your roof, J-M asbestos wainscoting for interior decoration, J-M insulating board for sheathing, attic partitions, etc., J-M asphalt tile for your flooring, or one of the Johns-Manville materials for sound-control or for insulation, you buy a product of uniform quality at reasonable cost. And you have the additional satisfaction of dealing with a manufacturer of long standing—one of the world's authorities on building materials.

THESE J-M OFFICES ARE AT YOUR SERVICE

At each of the offices below you will find representatives fully qualified to answer any questions about the Johns-Manville deferred payment plan and to assist you in making it of practical use.

New York office, 22 East Fortieth Street, New York, N.Y.
Boston Office, 75 Federal Street, Boston, Mass.
Syracuse office, 928 State Tower Building, Syracuse, N.Y.
Philadelphia office, Pennsylvania Broad Street Station Building, Philadelphia, Pa.
Cincinnati office, 121 East Seventh Street, Cincinnati, Ohio
Chicago office, 230 N. Michigan Avenue, Chicago, Ill.
Denver office, 219 Midland Savings Building, Denver, Colo.
St. Louis office, Locust Street at Seventeenth, St. Louis, Mo.
Milwaukee office, 229 East Wisconsin Avenue, Milwaukee, Wis.
Cleveland office, 6300 Euclid Avenue, Cleveland, Ohio
Pittsburgh office, Westinghouse Building, Pittsburgh, Pa.
Detroit office, 2778 East Grand Boulevard, Detroit, Mich.
Atlanta office, 902 Glenn Building, Atlanta, Ga.
New Orleans office, 1010 Maritime Building, New Orleans, La.
Seattle office, 743 Henry Building, Seattle, Wash.
Los Angeles office, 441 Petroleum Securities Building, Los Angeles, Calif.
San Francisco office, 159 New Montgomery Street, San Francisco, Calif.

Johns-Manville, executive offices, 22 East Fortieth Street at Madison Avenue New York. Cable address: "Johnmanvil", New York.

The CHAIRMAN. You may proceed with your statement.

Mr. FARRINGTON. May I say that in the example set forth in the Johns-Manville pamphlet, if as Mr. Brown testified the other day the interest charge is 12 percent——

The CHAIRMAN (interposing). No, not the interest charge as I understood him, but that all charges are 12 percent.

Mr. FARRINGTON. Well, all charges——

The CHAIRMAN (continuing). That is, service charges and interest.

Mr. FARRINGTON. That it would be 12 percent?

The CHAIRMAN. Yes.

Mr. FARRINGTON. If that were so, then on a strict 12 percent basis, Mr. Chairman and gentlemen of the committee, the total amount which the contractor in the case supposed would pay would be $17.06 as against $32.40.

Senator BULKLEY. What do those figures mean? I do not quite follow you.

Mr. FARRINGTON. We are arriving at the question of whether 12 percent is the amount charged by Johns-Manville on a roofing job such as they set forth in their pamphlet. And as I say, if you will take their example where a contract job is estimated to cost $300, the home owner is asked to pay 10 percent to Johns-Manville, while then as their contractor you then take a note for the remainder, $270 plus 12 percent.

That is to say, 1 percent each month, which gives you a total of $302.40, which note is in turn transferred by endorsement of the contractor to Johns-Manville. That will be a simple note which on its face carries no interest, but it does carry 15 percent for attorneys' fees in event of suit.

Now, I say that that is not a 12 percent charge, but strictly figured it is a 22.8 percent charge as can be surely ascertained if one will take pencil and paper and compute it. As you make payments the payments are made one each month for 12 months, you get $25.40 a pay-

ment, and as you can readily understand, if that were on the note you would charge interest up for the first month, marking it off, but——

Senator BULKLEY (interposing). In other words, there is no interest allowance made on the payments as they are made monthly?

Mr. FARRINGTON. No allowance is made on the payments, and the rate of course is considerably higher than 12 percent. It is as I have said 22.8 percent.

The CHAIRMAN. You may proceed with your statement.

Mr. FARRINGTON. Section 5 of the bill empowers the Home Credit Insurance Corporation to insure amortized mortgages of an original principal amount not in excess of $20,000, when presented by approved financial institutions; provided, however, that no such mortgage shall be insured where the original principal sum exceeds 80 percent of the appraised value of the home property constructed after the enactment of this bill, or 60 percent of the appraised value of existing homes. A further proviso limits insurance of mortgage on existing homes to five times the outstanding capital stock of the Credit Insurance Corporation, thus further discriminating against the man now owning his home.

As stated, the insurance is for amortized mortgages. What becomes of the far greater number of unamortized or straight mortgages? Bearing in mind that the home-mortgage debt is 21 billions, that the testimony is that the country's building and loan associations have 7 billions and the large insurance companies 3 billions, there is no help in this bill, actual or potential, for either the mortgage holder or the home owner in unamortized mortgage field.

The title of Senate bill no. 3603, as well as the publicity given it thus far, conveys the impression to the home owner that this legislation is primarily in his interest. It is respectfully submitted that this is not true.

The obvious intent of the provisions of the bill is, first, to lend money to the installment selling repair companies against the security of the note or other obligation of the home owner who is now asked to put on a new roof, repaint his home, or otherwise modernize it; and, second, to insure all those financial houses whose funds are invested in amortized mortgages and create new tax-exempt organizations with private capital but Government-controlled for the development on a Nation-wide scale of the amortized mortgage for the Nation's homes.

Senator BULKLEY. Aren't you losing sight of the benefits that would accrue to the security holder of a present mortgage if money is spent on repairs or renovation?

Mr. FARRINGTON. I haven't the slightest doubt, Senator Bulkley, that the bill is very adequately prepared from the standpoint of the security holder. But, as I have said, I am merely endeavoring to point out any objections which we see in the bill whereby proper care has not been exercised by the draftsmen of the bill in the matter of protecting the home owner himself.

Senator BULKLEY. Well, of course, it is to be assumed that the home owner won't enter into a contract for renovation unless he thinks it is to his benefit. It is entirely voluntary with him whether he enters into a contract or not. I thought your testimony was to the effect

that the bill did not render any service to the holders of existing mortgages. It seems to me it does.

Mr. FARRINGTON. I confined it, of course, to the straight mortgage field.

Senator BULKLEY. Well, confining that point to the straight mortgage field, isn't it of benefit to the holder of the mortgage if a house is renovized?

Mr. FARRINGTON. Personally I do not see it.

Senator BULKLEY. You do not think it would be of any benefit to have renovation of property that a man has a mortgage on?

Mr. FARRINGTON. Yes. As to that question, I stated that any house needing repair, if it is repaired, no matter how it is done so far as the financing is concerned, adds benefit to the interest of the security holder. That is true without doubt. Speaking personally, and I think very much for the people of the Home Owners' Protective Enterprise, we realize that there are many homes that need repairs. But, as I shall point out in a few moments, I do not believe this bill is going to give the flow of benefit directly to the home owner that it should give. And I follow it right up at this point in my statement by saying: "But there is not a line in the bill assuring or guaranteeing the home owner that his presently due or past due mortgage shall be renewed or refinanced."

Senator BULKLEY. It is not intended to do that here. That is financed in the Home Owners' Loan Act.

Mr. FARRINGTON. That is true. But the Home Owners' Loan Act is very limited. You must remember that that language, as I have been informed and have seen from some papers, is limited to those really in distress, largely by the fact that the lender, the present holder of the mortgage, cannot, not will not, but cannot lend.

Senator BULKLEY. Yes, of course, but that is what we intended to do for the fellow who was in distress. This bill does not pretend to do anything from that direction. It is for an entirely different purpose. It is not a fair criticism of this bill to say that it does not do anything for the distressed home owner, because we have already done what we thought was right for him in another piece of legislation.

Mr. FARRINGTON. It does to a limited extent.

Senator BARKLEY. There is no way to guarantee in any law that the holder of a mortgage against a distressed home owner would be willing to do anything about it.

Mr. FARRINGTON. All right. We come back to one of the most important pieces of repair work to be done. I understand on the record so far as what this bill will do for the concern that has a million dollars to lend at 22.8 percent that——

The CHAIRMAN (interposing). Do you suggest any amendments of the bill?

Mr. FARRINGTON. No, Senator Fletcher. I have none to offer.

The CHAIRMAN. Very well. You may proceed with your statement.

Mr. FARRINGTON. It taxes common sense, gentlemen of the committee, to believe that home owners, very many of whom are now distressed by due or past-due mortgage indebtedness, to say naught of their reduced incomes, are going to further obligate themselves for repairs or improvements if they know now their estates are in jeopardy by foreclosure.

One of the primary objects of the bill as I have understood it, and as I have followed it, is to bring about a large amount of repair work, thereby stimulating the building industry and creating employment for many out of work.

As for those finance companies owning mortgages on existing homes and who may seek insurance from Home Credit Insurance Corporation, the bill will not afford them the protection that might be hoped for under section 5, because reliable statistical data shows that there are approximately 11½ millions nonfarm mortgaged homes in the United States and that the average mortgage debt is nearly 61 percent of their present appraised value. When we say present appraised value, we allow for an estimated shrinkage of 35 percent in values since 1930, due to both the effects of the depression and an accumulated lack of repairs since 1930.

Title III of the bill obviously provides for the necessary corporate machinery to enable the Home Owners' Loan Corporation to insure the accounts of building and loan, savings and loan, and homestead associations throughout the United States.

This proposal to insure the accounts of the building and loan associations of the country should recall to mind what has happened to the surety companies that guaranteed first-mortgage bonds during the past decade.

I am not qualified to discuss expertly what the effects of the bill will be on the building and loan associations, but I am entitled to express the belief that any tax-exempt concern can win out over all competitors who are subject to the normal tax laws.

In my opinion this bill scraps the private initiative and control of the financing of the Nation's homes, and will entail an enormous expense bill to be borne by taxation, with no direct benefit to flow to the distressed home owner in whose name it is proposed.

That completes about all that I have to say in behalf of the Home Owners' Protective Enterprise, Mr. Chairman. I am glad of the opportunity of saying a few words.

The CHAIRMAN. Did you consider the proposition to establish national mortgage associations?

Mr. FARRINGTON. Yes; I did.

The CHAIRMAN. Are you opposed to that also? Do I understand you to say you do not favor the bill at all, in any respect?

Mr. FARRINGTON. I favor the objects of the bill, but as I conceive the provisions of it, it would seem to me to be prepared primarily in the interest of the lending installment houses engaged in financing. I think that if this bill were to be enacted into law perhaps there could be amendments made, particularly with reference to the rates and terms upon which the Home Credit Insurance Corporation is going to be run, as to installments to repair houses, as to lending to the fellow on notes that they take from the home owners. But I have not prepared any such amendments.

The CHAIRMAN. We will be very glad to have any suggestion by way of amendments you may propose, Mr. Farrington.

Mr. FARRINGTON. I thank you.

The CHAIRMAN. We are very much obliged to you.

Mr. FARRINGTON. And I thank you for the opportunity to be heard.

The CHAIRMAN. The committee will now hear Mrs. John D. Sherman.

Mrs. SHERMAN. Mr. Chairman, might Miss Obenauer precede me?

The CHAIRMAN. Very well. Miss Obenauer may come forward to the table and take a seat opposite the committee reporter.

Miss OBENAUER. I thank you.

The CHAIRMAN. State your name, place of residence, and official position or for whom you speak.

STATEMENT OF MISS MARIE L. OBENAUER, JOINT CHAIRMAN, BOARD OF GOVERNORS OF HOME OWNERS' PROTECTIVE ENTERPRISE, BARR BUILDING, WASHINGTON, D.C.

Miss OBENAUER. Mr. Chairman, I am appearing as one of the joint chairman of the board of governors of the Home Owners' Protective Enterprise.

The CHAIRMAN. You may proceed with your statement.

Miss OBENAUER. Beyond the mere statement that the Home Owners' Protective Enterprise is a national, noncommercial, and nonpartisan organization of home owners and that I appear as one of the two joint chairmen of its board of governors, I will defer to the end of my testimony information which the committee may want concerning the structure, scope, membership and methods of our corporation. I will also submit at that time, if the committee so desires, data as to my personal qualifications to discuss this subject with you.

Officers and experts of the Home Owners' Protective Enterprise have given Senate bill S. 3603 the closest possible study as to its direct and indirect effect upon the home-owning family of the Nation. Our conclusions were unanimous that the bill holds little or no relief for the home owner and threatens real harm to the home-owning family. Mr. Farrington, as our attorney and one with long experience in the legal phases of mortgage finance, has singled out for you the sections of the bill upon which his own and our adverse conclusions rest. In discussing the legal structure of the bill Mr. Farrington has made clear some of its economic faults. But breaking down our general conclusions further into concrete and specific objections to Senate bill 3603 we are convinced that first and most fundamental, the bill sets up machinery which heads straight for Federal regimentation of American home-buying, home building, home finance, and home repair.

Mr. Chairman, may I divert from my prepared statement just a moment to say this: There were many reasons why many of us who ordinarily would not like regimentation of industry—and we do not like regimentation of agriculture or any of the other instrumentalities of production—saw reasons under the emergency why it should be done, as an emergency I say. But none of the reasons for which that was done in that character of industry holds good for any bill that will lead to a regimentation of American citizens, to say what he shall do with his individual home.

Now, I will go on with my prepared statement if I may.

Senator BARKLEY. What is there in this bill that regiments American homes?

Miss OBENAUER. I will state it right along here in my prepared statement, Senator Barkley, if I may.

Senator BARKLEY. All right.

Miss OBENAUER. Mr. Chairman and members of the committee, it makes little difference to me as a home owner whether this Federal control comes in the form of a blunt "do or don't telegram" from a board of five men in Washington; or whether my right to keep the home in which I live or abandon it for a new or rented home is taken from me by such a legislative rigging of financial craft that I must steer the course laid out for me by the Federal board in the field of home ownership here in Washington. Concretely, it is all the same to me whether the proposed Federal credit corporation can say to me, "You must not borrow on straight mortgage security"; or whether it is clothed with power to confer such advantages on its creature companies as to drive out of the market the private agencies and private capital from which alone I can get straight loans. It just happens that straight loans suit my purposes much better than any amortized loan. There are hundreds of thousands of home owners in the same position. Just what is the big idea and whose is it of curtailing our right of choice in this matter as Senate bill 3603 does?

I take it that this committee wants the real names of things and groups covered in this bill. Very well, let us call by their real names the various groups who are concerned in the amortized loan which is favored by this bill to the exclusion of straight loans. This amortized type of loan has been the subject of paeans of praise as the nesting place of all that is fine and fair for the home owner.

And, Mr. Chairman and gentlemen of the committee, it is a pathetic and pitiful praise but we hear it every day. It can be just such a nesting place, but it can also be, and is to an amazing extent, the breeding place of the meanest sort of usury. It is the kind of loan in which it can seem to say on its face 6-percent annual interest, while there skulks beneath confusing phrases and tricky stipulations, credit charges running to 10 and 12 percent and over.

I am talking now about regular mortgages and not repairs. Mr. Farrington can take care of that.

It is the type of loan which, though having real advantages for the home-owning family, also carries greater dangers than the straight loan for the simple reason that the entire amount of an amortized mortgage usually becomes due upon default of a single one of the agreed monthly payments. After such default foreclosure is at the discretion of the mortgage holder. If, therefore, a home-owning family suffers loss of income through unemployment or any other reason there are usually just 30 days during which the family can find new employment or other ways to escape the status of a defaulting mortgagor.

Under the straight loan this rescue period usually stretches to 3 or 6 months, depending on whether the contract calls for quarterly or semiannual interest payments. The real names of the unfailing beneficiaries of the amortized loan are the money-lending brokers because such loans keep the principal of loans constantly flowing back for reinvestment with all the profit legitimate and otherwise that attach to the business of real estate financing.

Incidentally, let me call your attention to the fact that building and loan associations in a number of States and in others the amortized loan itself have been made exempt in effect from the State's penalties for usury. Mr. Chairman, is the home owner or the money-lending broker the real name of the beneficiaries of laws which say that build-

ing and loan associations may charge in addition to fixed rates of interest and commissions such premiums as are fixed in their bylaws and may collect the same in advance—

That interest to the full amount of the amortized loan may be added to the debt on maturity, and the combined interest and principal divided into monthly installments.

Now that I may not be misunderstood, let me put into the record our conviction that the greatest builders of civic stability are building and loan associations and other commercial lending agencies that usually through fair cost amortized loans, make home ownership possible to the family of limited income. But that is not to say that all building and loan associations and other commercial lending agencies making amortized loans deal fairly, openly, and on a sound basis with home owners in the matter of interest charges. It is for these reasons that we object to this bill's entrenchment of the amortized loan at the expense of the straight loan.

Furthermore, even if this discrimination against the straight loan were eliminated, we object to the bill on the ground that there is no limitation of interest to be charged to home owners by agencies that enjoy the benefit of the act at the expense of all taxpayers, including the victimized home owners.

Through the force of sections discussed by Mr. Farrington this board of 5 to 7 men in Washington can determine what is socially desirable housing in every community in the land, and under the powers conferred they can make their judgments effective. Call it by any name you choose the smell of such regimentation of American homes will be the same in the nostrils of the American home-owning public.

Second only in importance is our objection to this bill on the ground of the other material harm it will do to the home owner and likewise to the actual mortgage holders as distinguished from the lending brokers. For every mite of help that American home owners may get from this bill they will pay many times over in reduced values of existing homes. Mr. Farrington has pointed out to you the sections of the bill which inflict this injury. As a necessary supplement to his analysis of the sinister effect of this 60-percent limitation for mortgages on existing homes as compared with 80 percent on new homes, I call your attention to the following facts revealed by the United States census.

In the decade ending 1930 the population increased approximately 16 percent; the number of family dwellings increased over 22 percent during the same period; immigration has been shut off by law and by economic conditions to a relatively insignificant factor in the housing problem; our birth rate is rapidly declining. In the face of these facts what else but harm to existing home values can come from artificially stimulating new home building beyond the effective demand, as this bill does?

Mr. Chairman, as stated to you, this bill has been studied from the viewpoint of the home-owning family, but I think there will be no successful challenge of the statement that the lifeblood of the prostrated building and building supply industries, and of the home financing business, is the American family's faith in the wisdom of home ownership and in reasonable hope that mortgage-burdened home owners can save their homes without loss to those who have

loaned money on honest terms. Faith in the wisdom of home ownership is dead in millions of homes-bereft families and in unnumbered others who know of the misfortune through kinship or friendship. It lies mortally wounded in millions of other families now facing the danger of foreclosure, a danger that will be increased by this bill.

Newspaper "bally-hoo" is just about spent. Faith in ownership can be resurrected and hope of saving the home can be restored only by making safe the 20 to 21 billion dollars of private capital now invested in existing mortgages on homes so that there will be no desire to withdraw it.

It is this effort to withdraw money from mortgage investments that is threatening so many homes with foreclosure. Yet investors do not want to withdraw capital that is safe and yielding a fair return. I am not talking about the brokers who derive income from a continued reflow and turnover of the principal of loans. It is only fear that capital and income will be wiped out that exerts the strong pull from investors to get their money out of homes in which the owners are themselves losing faith.

The fear of the investor will subside and pressure for return of the principal of the loan will ease off as the faith of the home-owning family revives in its ability to keep the family shelter. That faith will come to life only when home owners whose credit in normal times and whose equities warrant, are assured that their mortgages will be extended provided agreed interest payments and taxes are kept up; provided further, that repairs essential to preserve property value will be made; and provided further, that where the home owner does not have the cash, credit will be available at a cost known and limited by law if made from agencies that enjoy the credit facilities of the United States Government.

To divert for a moment from my statement, I should like to call attention to the utterance of the President, just before the last election, that the use of the facilities of the United States for discounting purposes should be conditioned upon the extension of loans and the control of interest. I will submit that statement of the President for the record if you would like it. I think it bears on this proposition.

There is not one line in this bill that puts its creature companies or other beneficiaries of this bill—or the home-loan-bank law, for that matter—under any compulsion to extend existing mortgages, no matter what the credit or equity of the home owner is. What is more, no mortgages over 60 percent of the market value—and the average and majority are over that—can be extended and enjoy the benefits of this bill. Mr. Chairman, who put that in the bill and why? What is the real name of that provision's beneficiaries?

Now as to the provision for repair and modernization of homes: Neither you nor I facing the loss of the family shelter through foreclosure, with our backs against the wall fighting for a way to live other than by Mr. Hopkins' relief rolls, will put one cent in repairs or taxes on homes we think we are going to lose. Even Chairman Fahey's vivid faith that the right sort of advertising will make either you or me do it isn't convincing. But if I can save my home by making only needed repairs, I will put on the repairs gladly, even though I have to draw on reduced earnings or go in a little carefully guarded way further into debt. But this bill holds no such give-and-take facility for me or any other home owner. It does not link mortgage extension with reconditioning. Without such linking there will be

no permanent or healthy revival in the building-supply industries because there will be no restoration of prostrated hope to save the home and no check to the devastating loss of faith in the wisdom of home ownership.

Finally, there is not one line in this bill, with all its regimentation, that protects the home owner from excessive interest rates on repair loans.

Mr. Farrington gave you that illustration in connection with the roofing matter, and I will not here attempt to go into it further.

To forestall your thought that we have come only to find fault, let me say that last January we presented to the R.F.C. as a basis of a specific request our own plan of home-mortgage stabilization and reconditioning which would not require any legislation; which was based upon the private and connective initiative of home owners in cooperation with mortgage holders with only such emergency liquidity from existing Federal credit facilities as emergency conditions warrant and as existing law permitted.

This program takes into consideration the need of concentrating a reconditioning campaign upon home-owner groups that can protect their homes from further devaluation by putting on needed repairs.

And, Senator Couzens, may I call your attention to the fact that in our plan we dug out a way in which we may get to the home-owner groups that could make repairs, and I will be glad to put that in if you wish.

It provides for competent and disinterested counsel to the home owner as a guard against needless further debt commitments and unsound charges for credit. Neither of these things are done by Senate bill 3603. Furthermore, the bill would effectually block such services to the home owners of the country.

Finally let me put this into the record: Our program, based as it is on private initiative, will bring back the billion and more dollars of private capital needed each year to keep our 25 million family dwellings in repair and will bring it back in a way that will start into circulation the stagnated red blood of the building industries and relieve us from the menace of Federal control in the field of home ownership, because it was devised from the viewpoint of the home-owner interest.

Mr. Chairman, I have a 2-page statement here about the structure, scope, polices, and so forth, of the membership of the Home Owners' Protective Enterprise that I should like to put into the record if you want it.

The CHAIRMAN. Very well. You may do so.

Miss OBENAUER. It is as follows:

STRUCTURE AND PURPOSE OF THE ORGANIZATION

1. The Home Owners' Protective Enterprise is a national noncommercial organization of home owners incorporated only a little over a year ago under the laws of the District of Columbia. Its name is protected throughout the United States and its insular possessions by registry in the United States Patent Office. Its powers and limitations are clearly defined by its charter and incorporator bylaws which cannot be changed without submission to the four national consultants, who are not removable and whose numbers cannot be increased except by the consent of at least three of such consultants. These instruments assure to resident members of each State and political subdivision complete control of their own home-owner policies and activities, including the building up of their own membership, the collection of dues and the maintenance of

membership records. Because the organization is so young and because its national officers and resources have been absorbed thus far in discharging the principal function of the national office, viz, getting to all home owners in every State information essential to their guidance and protection during these stressful times, there has been no check-up as to the State membership. As a result of our series of coast-to-coast broadcasts, not only have membership applications and inquiries come in from all over the country, but there are pending applications and inquiries from State and local home-owner associations for mergers or working affiliation with the Home Owners' Protective Enterprise. Some of these local associations claim 14 to 15 thousand members—some do not state their membership. All of such applications or inquiries must be referred to the State policy committee for action. The decision is limited only by the general provisions of the charter and bylaws of the national organization, most important of which to this committee are:

That no officer of a commercial home financing agency or of a utility company whose services enter the home is eligible to membership, nor can money in either gifts or loans be accepted from such sources;

That the State units of the Home Owners' Protective Enterprise and such home-owner associations as it absorbs must be absolutely noncommercial, nonpartisan, and exclusively for the home-owning family.

Just one word further about charter and by-law provisions: Pending the time when State policy committees in half or more of the States have selected 2 members—1 man and 1 woman—to serve on the national policy committee to control by majority vote the policies and personnel of the national office, it is the right and duty of the national officers to disseminate information important to homeowners and to express judgments as national officers on measures introduced into Congress in the name of the home-owning family for purposes or with effects outside of the advertised intent of the legislation. It is time and it is our duty to let the home-owners of the country know just what actually is in such measures, regardless of what is said about the intention of its official sponsors whose good faith we do not question.

As to my personal qualifications to speak of conditions in the field of home ownership:

Mr. Chairman and members of the committee, my hair has grown white, and not prematurely either, in collecting and interpreting facts, the results are matters of published and public records, they will mark the degree of my dependability as a fact-finder and analyst.

For the last two and a half years I have been studying intensively conditions in the field of home ownership and mortgage finance, not alone as revealed by published and unpublished figures of government and private agencies, but as revealed by thousands of individual home-owners whose mortgage finance status are separately shown on cards filed in our Barr Building offices. More than any officer of the Home Owners' Protective Enterprise I have talked and corresponded with these men and women. Such is the background and basis of testimony presented to this committee from the Home Owners' Protective Enterprise in the interest of the 14 million families who own the home in which they live.

The CHAIRMAN. Any other questions by the members of the committee? [A pause, without response.] We are very much obliged to you.

Miss OBENAUER. I thank you for hearing me.

AMENDMENTS OFFERED BY MR. FARRINGTON

HOME OWNERS' PROTECTIVE ENTERPRISE,
Washington, D.C., May 25, 1934.

Hon. DUNCAN FLETCHER,
Chairman Committee on Banking and Currency,
United States Senate.

MY DEAR SENATOR: I am submitting 14 amendments to Senate bill 3603.

At the time you so courteously invited suggestions as to needed amendments I was not in a position to make them, as I did not know the attitude of the Board of Governors of the Home Owners' Protective Enterprise in this matter. I make them now with the full approval of the board. I am requested, however, to make clear that while the attached amendments would remove some of the features of

the bill which we feel are very hostile to the interests of home owners, it is the conviction of the officers that such amendments do not remove the fundamental objections to the National Housing Act as the measure still moves up in the direction of needless regimentation in the field of home ownership and needless increase in the burden of taxes.

Yours very truly,

MARVIN FARRINGTON, *Attorney.*

Amendment no. 1 to Senate bill 3603: On page 4, strike all of line 17 after the word "Government," and strike all of lines 18 to 20, both inclusive.

Amendment no. 2 to Senate bill 3603: On page 4, strike the following at the end of line 23 and beginning of line 24: "personal finance companies,".

Amendment no. 3 to Senate bill 3603: On page 6, line 4, change the period after the word "title" to a colon and add the following:

Provided, however, That it shall be a condition precedent to making any such loan or agreement to lend that the Corporation shall require any and all such financial institutions applying to it to produce evidence to prove that each and every obligation representing a loan or advance of credit presented to the Corporation does not include interest and financing charges, against the maker of such obligation, which together are in excess of an actual 8 per centum per annum: *And provided further,* That the Corporation is hereby prohibited from making a loan or agreement to lend against the security of an obligation representing a loan or an advance of credit that includes interest and financing charges, against the maker thereof, which together are in excess of 8 per centum per annum.

Amendment no. 4 to Senate bill 3603: On page 6, line 10, strike the word "amortized".

Amendment no. 5 to Senate bill 3603: On page 6, line 11, strike the following "or low-cost housing projects,".

Amendment no. 6 to Senate bill 3603: On page 6, line 20, strike the figures "80" and in lieu thereof substitute the figures "70".

Amendment no. 7 to Senate bill 3603: On page 6, line 21, add a comma after the word "therefor" and then strike the remainder of line 21, all of line 22, and the following from line 23: "in the case of homes constructed since the passage of this act, or 60 percent of the appraised value of such property in the case of existing homes,".

Amendment no. 8 to Senate bill 3603: On page 6, line 25, strike the word "existing".

Amendment no. 9 to Senate bill 3603: On page 7, lines 3 to 8, both inclusive, strike the following: "It shall be the duty of the Corporation to discourage socially undesirable building or purely speculative overbuilding, and the Corporation shall not insure mortgages where in the opinion of the Corporation such socially undesirable building or purely speculative overbuilding will result."

Amendment no. 10 to Senate bill 3603: On page 17, beginning in line 15 and ending in line 22, strike the following: "Such associations, including their franchises, capital, reserves, and surplus, and their loans and income, shall be exempt from all taxation now or hereafter imposed by the United States, and all shares of such associations shall be exempt both as to their value and the income therefrom from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States; and".

Amendment no. 11 to Senate bill 3603: On page 22, line 20, strike all of line 20 after the comma (,), and also strike all of lines 21, 22, and 23.

Amendment no. 12 to Senate bill 3603: On page 36, lines 9, 10, and 11, strike the following: "in no case shall the amount of the advance exceed 60 per centum of the value of the real estate securing the home mortgage loan".

Amendment no. 13 to Senate bill 3603: On page 36, line 14, strike the figures "50" and in lieu thereof substitute the figures "65".

Amendment no. 14 to Senate bill 3603: On page 36, lines 15, 16, and 17, strike the following: "in no case shall the amount of such advance exceed 40 per centum of the value of the real estate securing the home mortgage loan".

The CHAIRMAN. The committee will now hear Mrs. Sherman. If she will come forward to the table and take a seat opposite the committee reporter.

Mrs. SHERMAN. I thank you.

The CHAIRMAN. Will you please state your name, address, and whom you represent?

STATEMENT OF MRS. JOHN D. SHERMAN, NATIONAL CONSULTANT, HOME OWNERS' PROTECTIVE ENTERPRISE, BARR BUILDING, WASHINGTON, D.C.

Mrs. SHERMAN. I am Mrs. John D. Sherman, Washington residence, Hotel Grafton. I am a national consultant in charge of organization contacts of the Home Owners' Protective Enterprise; a past and honorary president of the General Federation of Women's Clubs, retiring chairman of the American Home Department of the Federation, and presidential commissioner of the United George Washington Bicentennial Commission in charge of women's organizations of the United States.

The CHAIRMAN. You may proceed with your statement.

Mrs. SHERMAN. And I will state that I own a home in Colorado.

The CHAIRMAN. Very well.

Mrs. SHERMAN. Mr. Chairman, I am deeply interested in the American home and in home ownership. I feel that everything that is humanly possible should be done at this time to safeguard the home owner from the loss of the family dwelling.

I am opposed to the pending bill for reasons expressed by Miss Obenauer and Mr. Farrington. I feel that it fails to give distressed home owners the needed and hoped-for assistance and in general is not to their best interest.

Of all the losses sustained by the Nation during the last 5 years none has been more serious than the loss of homes through foreclosure. The home is the very foundation of our social structure, and where a home is lost through loss of power to meet obligations it means much more than the loss of a house. It means the family's loss of its life savings—a loss of confidence—a deadening blow to family morale and a mortal wound to home ownership.

I believe the Nation would be benefited as much as the home owner if greater sympathetic consideration were given to an effort to saving its home-owning industry. And aside from this I object to the strong evidence of regimentation of homes disclosed in this bill by the last two speakers.

I am not speaking officially for any organization of women but my experience with these groups covering a period of 25 years gives me a very fair idea of the reactions of the women of the Nation to any plan that even suggests regimentation or standardization of their homes.

This is also the thought of the president of the General Federation of Women's Clubs who said in a public address the 11th of this month:

> We want no standardization of homes, we want individualism, and we sound that note of warning to the Government in our cooperation with them.

I thank you, Mr. Chairman.

The CHAIRMAN. Any questions by members of the committee? [A pause, without response.] We are very much obliged to you.

Mrs. SHERMAN. I thank you.

The CHAIRMAN. We will now call Dr. Compton.

Mr. COMPTON. I thank you, Mr. Chairman.

The CHAIRMAN. Please state your name, place of residence, and occupation.

STATEMENT OF WILSON COMPTON, GENERAL MANAGER OF THE NATIONAL LUMBER MANUFACTURERS' ASSOCIATION, WASHINGTON, D.C.

Mr. COMPTON. Mr. Chairman, I am the general manager of the National Lumber Manufacturers' Association. I am here in their behalf and for the lumber code authority.

The CHAIRMAN. Have you examined the pending bill (S. 3603)?

Mr. COMPTON. I have.

The CHAIRMAN. You are familiar with it, I take it, and we will be very glad to have your views.

Mr. COMPTON. I think it would probably not serve any good purpose for me to comment on the general features of the bill, as to which I and those for whom I speak are quite in accord with those who have appeared here in favor of the proposed legislation. We want to be understood as endorsing this bill in all its major aspects, in all its principal provisions, together with a confession of incompetence to pass judgment upon the adequacy of some of its details, as to which undoubtedly there is competent professional and expert assistance available to the committee.

I think perhaps a statement on my part would be most helpful if it represents particularly the viewpoint of an industry whose principal and special relationship to this subject will be that of those supplying materials. And I believe it is true that the lumber industry and its related timber products industries will be more largely involved in the supplying of materials for home building and home repairs, such as is contemplated in this legislation, than any other one industry.

The situation in our industry I should like to lay before you with a few brief figures, although with no unnecessary statistics. I think, Mr. Chairman, you know from the standpoint of your own State, that we are engaged on a rather difficult code undertaking, particularly in respect of increased wages over the country as a whole which has been much greater than in the case of most other industries. The increase in minimum wages has been a little over 100 percent since a year ago. That reflects great advance. In addition it reflects the dismal sweat-shop level to which wages in these industries had been forced by the cycle of destructive prices that were under way in this industry, and in most other industries with which you are doubtless familiar.

The CHAIRMAN. Has there been any materially increased demand for lumber?

Mr. COMPTON. There has been since a year ago. Since the code went into effect there has been an increase of about 30 percent in volume and——

Senator BARKLEY (interposing). What increase has there been in prices?

Mr. COMPTON. The increase in prices has been, as an average for the industry—and please understand that there are a good many that are vastly more, and some vastly less—but the average is about 60 percent.

I am speaking now solely of material prices, mill prices as to which I am only competent to speak.

This is what has happened in the last year under the code: As to an industry which a year ago its business had shrunk in volume to the

lowest point in 60 years, and the price level to the lowest since 1905, it has seen its sales increase; that is, its volume of business increase, 30 percent. The volume of its employment has increased over 55 percent. Its prices have increased a little over 60 percent. I can give you the exact figures as I have them here. Its minimum wages have increased nearly 100 per cent, and its total pay rolls have increased about 120 percent over last year. That is for the month of April, which is the nearest information available, and the pay-roll employment information and the price information are based on reports of the Bureau of Labor Statistics.

Senator BARKLEY. What has been the average increase in wages?

Mr. COMPTON. This is the average.

Senator BARKLEY. You were speaking of the minimum. I am speaking of the average.

Mr. COMPTON. Well, I don't know what the average is. The total pay rolls, which would include the average, have increased 120 percent.

Senator BARKLEY. You have paid out more money for labor, but a part of that might include increased employment.

Mr. COMPTON. That is true. The increase in employment is 55 percent, so, as to last year, you would have a ratio of 155 to 220.

Senator BARKLEY. What proportion of the lumber industry was enjoying the minimum wage before the increase started?

Mr. COMPTON. I should say anywhere up to about 50 percent, a maximum of 50 percent, and probably it would run from 20 to 50 percent.

The CHAIRMAN. What amount of the cost of mill production is taken up by the labor cost?

Mr. COMPTON. What proportion of it?

The CHAIRMAN. Yes.

Mr. COMPTON. On the average about 65 percent is labor. That varies vastly as between regions. Particularly in your section and in the smaller enterprises it is a larger percentage. In some of the areas of the Northwest, for example, where the industry is highly mechanized, it is less, probably as low as 40 percent in some instances.

If I may answer Senator Barkley's question specifically, this is information published by the Bureau of Labor Statistics on the average prices of all kinds of materials. Present prices are as of March, the latest figures available in this tabulation, which is 86.4 percent of the average in 1926; that is, within 14 percent of 1926. As compared with a year ago it is 56 percent, that is, the low point was 55.9 percent, and the high point was 88 percent at the first of this year, with 86.4 percent at the present time. If I correctly understand your question that is the nearest available information.

The CHAIRMAN. You may proceed with your statement.

Mr. COMPTON. The labor employed in these industries combined in ordinary times is about one million, and that you will recognize is placing it in one of the largest employing groups. Now, that is not to be construed as meaning, of course, that at the present time there is anything like that employment, because, as I have already indicated, the volume in this industry had been driven down to about one third the volume of 5 years ago. And as a result the employment in sawmills alone—I mean sawmills and in the woods in the

primary operation—in 1929, was about 450,000 and had been driven down to somewhere below 200,000, and as of March of this year it was about 260,000.

The consumption of lumber, if I may include that part of the background from which you may consider the effect of this legislation if enacted into law, on employment and progress in this industry, in 1928 was about 38 billion feet. This is the national consumption of lumber, the most of which goes into buildings as you know. It was 12½ billion feet in 1912, and last year it was about 15 billion feet. At the present time it is running, so far as the informtaion available to the National Recovery Administration or to the code authority is concerned, about 17½ billion feet. That is a little less than one half of the consumption in the year 1928, which represented the peak.

Now, to compare that information with this pending legislation, and without going into the details of computation but stating it merely as an expression of opinion of these industries, it is thought if this legislation is enacted, and if it is effective in restoring in large volume residential construction, repair, and modernization of homes, we think it could be made, with the proper corollary activity on the part of the industries themselves, to restore a volume of consumption of about 25 billion feet a year. That would be a substantial increase from the present volume of 17½ billion feet. But it is far less than the maximum of 5 years ago of 38 billion feet.

On the other hand, it is not at all likely, as we view it, that consumption will be restored at any time in the near future to that point, and my own thought is that we shall never again see a consumption of lumber as great as it was in the past decade. Not because there won't be, perhaps, as much housing, but there will be more economical housing and less waste. At least that is our hope.

And if that is done, if it can be instrumental in restoring consumption to approximately a level of 25 billion feet, it will bring about a possible restoration of employment to a point that is about 12 percent less than the maximum employment in the same industries in 1928. That would mean a very substantial increase in employment, as you will see.

Now, we have studied all the home bills. They obviously would have great effect on industries of this type. I think it may be safely said that we are reasonably familiar with the various proposals made from responsible sources, and I think we are aware of the sources of criticism, criticisms from the standpoint of the building and loan associations. Of course, they have been a very vital factor in making available in years past funds for home building. And also to some extent for home modernizing and repair.

The objections stated here in behalf of building-and-loan financing institutions do not impress us as being very conclusive. We see no reason why this legislation should be harmful to that type of enterprise. It probably will be adverse, and it ought to be adverse to certain types that have been represented by the practices of some building-and-loan associations and other like institutions in the past, and which the building-and-loan associations themselves frankly oppose.

I mention that for this reason, that we do not regard our expression of strong endorsement of this pending legislation in all its major

features, as destructive of progress of the proper type of thrift hat is represented in the existing building-and-loan institutions and in their own proper desires for progress hereafter. We regard the fundamental principle of this legislation as a very ingenious embodiment of the insurance principle in probably the largest single area in which it can be helpfully introduced in this country, as promising in a national sense large results in terms of economy and instability and insecurity of home ownership. And in restoring what perhaps is vastly more important, the confidence of the people that do have money to invest in this particular type of investment, a character of investment as to which you well know confidence has been vastly shaken and is right now shaken. And that all this, by the use of this ingenious insurance principle, it seems probably can be made available at very low cost to the public, and perhaps in many of these features no cost whatever over a period of time.

I think, Mr. Chairman, if there is nothing further the members of the committee wish to ask, there is nothing further that I could add which would be of benefit or help to you.

The CHAIRMAN. Can you see any harmful effect or results to home owners by this legislation?

Mr. COMPTON. No; I cannot. I think it may with propriety be said, in advance of experience which anyone would have to have in order to test an enterprise of this magnitude, that it may not be effective in meeting all the adverse conditions with which the country now has to contend with respect to home ownership. But that I do not think is very constructive criticism of the legislation. It may be that some other legislation later on may be necessary. What is proposed here may be partially inadequate in some instances. But I cannot see where it would be harmful.

The CHAIRMAN. Do you believe it is unwise to provide for amortized mortgages?

Mr. COMPTON. I think one of the most vulnerable and weakest features in the shape of the investment of individuals has been the straight mortgage or the unamortized mortgage. Liens come due and the value of the property on which they are based is not there in many cases. I should say that the amortization feature is one of the cardinal features of this proposed legislation, and that it would be much less valuable in carrying out the declared purposes of the bill if they were not included.

Senator BARKLEY. Without that wouldn't a great many home owners be denied the opportunity to make a loan at all?

Mr. COMPTON. I should think so. I should regard that as one of the cardinal and vital features of this proposed legislation.

The CHAIRMAN. Any other questions by members of the committee? (A pause, without response.)

We are very much obliged to you, Dr. Compton.

Mr. COMPTON. And I wish to thank you for hearing me.

The CHAIRMAN. We will now hear Mr. MacDougall.

Mr. MACDOUGALL. Thank you.

The CHAIRMAN. Please come around to the table and take a seat opposite the committee reporter. Please state your name, residence, and occupation.

STATEMENT OF EDWARD A. MacDOUGALL, CHAIRMAN OF THE HOUSING COMMITTEE, NATIONAL ASSOCIATION OF REAL ESTATE BOARDS; BUSINESS ADDRESS, NO. 60 EAST FORTY-SECOND STREET, NEW YORK CITY

Mr. MACDOUGALL. Mr. Chairman, I will state that I am the chairman of the housing committee of the National Association of Real Estate Boards, with business address at no. 60 East Forty-second Street, New York City. I am president of a real-estate and building-development corporation.

The CHAIRMAN. Now, Mr. MacDougall, have you examined the bill pending before us (S. 3603)?

Mr. MACDOUGALL. I have, Mr. Chairman.

The CHAIRMAN. State your views about it, if you will.

Mr. MACDOUGALL. As chairman of the housing committee of the National Real Estate Board, I want to endorse this bill in principle. The chairman of our mortgage committee has testified before your committee and has suggested certain amendments in which we concur. We believe it is a very constructive effort.

Senator GOLDSBOROUGH. By whom were those amendments suggested?

Mr. MACDOUGALL. By Mr. Walter Schmidt, of Cincinnati, chairman of our mortgage committee, who testified before your committee. I have a copy of the amendments before me.

I want to speak particularly on the broader aspects of the problem of housing, the need of housing, as it occurs to us, based upon several years' study of this problem.

There is one practical suggestion we think might be made in the way of an amendment, and that is on page 6, line 11, to eliminate the words "owner-occupied."

Our reason for suggesting that amendment is that it is our belief that a Federal agency must of necessity be provided as a means of establishing or reestablishing mortgage credit in the United States. Our system of financing homes by short-term first mortgages and large second mortgages, we believe to be entirely impracticable, as demonstrated by the complete collapse in large centers of population.

As an emergency proposition the National Real Estate Board did not oppose this feature in the original Home Loan Act, but we have learned since the enactment of that bill that there are a great many home owners, desirable citizens, who have made every reasonable effort to maintain the ownership of their homes, who in many instances have had to vacate their homes, the wife going back to the farm, if you please, and the husband living in a hall bedroom, if you please, until he could get adequate employment, while the building the he was formerly buying, that he could no longer pay for under the terms of the original mortgage contract, had to be rented to obtain sufficient income to maintain the credit of that transaction. So we believe that it would be worthy of the serious consideration of your committee to think of it along those lines.

Senator BARKLEY. Would you draw any distinction in the law between that situation and a situation where there had not been any home ownership?

Mr. MACDOUGALL. No. I would not do that in the law, Senator, but I would do that as a matter of administrative policy, that no

home loan should be applied to other than a prospective home owner, a man who is ready to buy a home.

I have this thought in mind. We have learned, by a careful survey over a period of 3 years, and especially in the last 6 months, that there are a great many homes that have been abandoned because the owners have been promised relief by financial institutions, and they have not been able to secure the relief anticipated. The mortgage is past due.

To illustrate, in the State of New York we found it necessary to go to our legislature and ask for a moratorium. It was granted for a period of 1 year on the basis that judgment could not be entered in foreclosure where interest and taxes had been paid, but where the principal was due, or an installment was due and not paid. That has just been extended for another year to meet the condition that otherwise would have brought on complete collapse. There are over two billion dollars of mortgages in distress now in the city of New York, with which no doubt you are all familiar from newspaper reports, and there is no adequate agency in existence now in which, apparently, the public has sufficient confidence, to purchase mortgages or lend money on mortgages.

At a recent interview in Washington it was stated by an important official of the home loan bank that the financial institutions claim now that they have funds to lend for existing mortgages in distress that would not come under the Home Loan Act—because, as you know, there is a limitation that no loan shall be granted above $14,000, although the act itself provides a loan is eligible on property appraised up to $20,000, on an 80 percent basis. That seems to be a misnomer. We believe you should give consideration to the proposition that a borrower could get 60 percent, or 80 percent of the value of a mortgage, not exceeding, say, $20,000, if that, in the judgment of your committee, is the proper limitation.

The statement was made, as I have referred to it, that there were adequate funds to meet the needs, but they could not find borrowers. As chairman of the mortgage committee of the New York board, I sent out an inquiry to a number of our representative board members, to our New York State Board, to the State Board of New Jersey, and a great many other local real-estate boards, to inquire if they could find mortgage money available to erect new houses at moderate prices, say within a limit of $20,000 to $25,000, a class of house that might be eligible, under ordinary circumstances, under the Home Loan Act. We had replies which were sent to Washington, and I think they are in the hands now of the home-loan bank, Mr. Fahey. There were 72 instances in which responsible builders, builders of our acquaintance, who are men of standing and of experience, say that they are ready to proceed with the erection of 700 individual houses if they could get adequate mortgage loans. In many instances the prospective buyer is prepared to pay from 25 to 40 percent cash on the transaction. Now, with the demand of the capital goods——

The CHAIRMAN. Are those low-cost houses?

Mr. MACDOUGALL. The inquiry was based on houses that would cost within $25,000. That takes care, based on our observation and experience, of the professional man as well as the man who pays a lesser amount.

We believe that provision should be made to encourage home ownership of that type. To meet the objection of a previous speaker about amortized loans, we in the National Real Estate Board believe that a safe loan is one on an individual house that is amortized. In 25 years' experience, handling thousands of transactions—I now have over 3,300 tenants that I take care of, and a great many home owners—I do not recall a single instance where a financial institution has foreclosed where interest and taxes have been paid, for the nonpayment of amortization. There may be exceptions. That condition may prevail in other sections of the country. To meet that criticism, I would suggest for your consideration the plan that has been operative in Europe for a great many years, particularly in France, which gives a home owner or a borrower upon a long-term mortgage the option of adjusting the rate of amortization to meet the circumstances as they develop.

To illustrate, in the case of a young married couple, where they are very optimistic, they believe they can pay a very substantial amount on the principal, due to good earnings, and previous experience, with some capital on hand. The payment is elective, and they usually put that on the basis of a higher rate. At a later time, in the event of increases in the family, they find that the doctor's bills and other expenses for sickness require them to readjust it. It is my thought that both the German and the French, as well as many of our New England communities—and I speak of that because I have had experience there dealing with the subject—feel that some amortization should be paid. It is conducive to saving. If I might make a personal reference in illustration of this fact, I was invited to stay for the week-end with my daughter, who lives in New England, to attend a very important ceremony in her family. I asked her the occasion, and she said "Well, it is a tradition in my husband's family to burn the mortgage on the home. We have been married 12 years. We borrowed the money through a building and loan association, and we are going to burn that mortgage."

I merely refer to that to indicate that at least in my personal opinion an amortized loan is the only practical way of inducing people ultimately to own their homes.

Senator BARKLEY. It is the only way you can get long-term credit.

Mr. MACDOUGALL. Yes. As a builder, I would say—and I think it is the experience of other builders whom we contact, and offices of real estate boards—that the home selling of the future must be upon a basis where there is one mortgage, a first mortgage, and that first mortgage runs for at least 10 or 15 years, and the rate of interest is comparable with interest rates throughout the country, and not fixed by a rule determined by a group of bankers who control capital in centers of wealth. That is why we believe in this bill, with the amendments suggested by our mortgage committee, that that rate shall be reasonable, but fixed by the Secretary of the Treasury, a Government official, who has knowledge of the value of interest on capital, and not left to the arbitrary control of a group in a local community.

The CHAIRMAN. These amortization provisions usually carry an option to the borrower to pay off the entire indebtedness at any time he wishes.

Mr. MACDOUGALL. I believe that is true in the building and loan mortgages, and I think it should be in any amortized mortgage. They should have the right of prepayment. There is one other provision in the bill, Mr. Chairman and gentleman——

Senator GOLDSBOROUGH. Mr. MacDougall, going back to page 6 of the bill, you spoke about eliminating the words "owner occupied."

Mr. MACDOUGALL. "Owner occupied", yes.

Senator BARKLEY. Just the elimination of those words raises a situation that might not be handled by administration, because it opens up an unlimited field for all sorts of houses that never have been home-owned, and never will be. They are rented.

Mr. MACDOUGALL. I think in your regulation you could have that benefit accrue only to the home owner.

Senator BARKLEY. How can you do it if you strike it out of the law?

Mr. MACDOUGALL. I distinguish between a home owner and "owner-occupied."

Senator GOLDSBOROUGH. You explained that by citing the case of a man who, unfortunately, had to give up his house for a while.

Mr. MACDOUGALL. Exactly. I have taken people out of individual homes to preserve their equity. Their fixed charges were $150 a month, or $1,800 a year, and I have put them in $40 apartments, while the man went out to look for a job and his wife either went to work or went back to the farm, and they rented the house. He paid his debt. He did not renege on his contract. I think the Government could give consideration to that, under an administrative policy in the hands of the management of the home-loan bank, but only on buildings that are home-owned. I do not mean to apply that to the real-estate speculator, or anything of the kind.

The CHAIRMAN. They must be real homes. I understand the insurance companies usually require owner-occupancy.

Mr. MACDOUGALL. There are a good many things that insurance companies, builders, bankers, and mortgage people have required in the past, Senator, that they have come to learn are not altogether practicable.

Senator BARKLEY. In normal times it is much to the interest of the lender that the borrower shall reside in his home.

Mr. MACDOUGALL. That is true; but, if you will bear with me on this point, the act was to help distressed home owners, as an emergency proposition.

Senator BARKLEY. I realize that.

Mr. MACDOUGALL. When it comes to any other condition, I believe the Government should not lend a dollar direct. It should only be done by rediscount, and that is covered in this memorandum here, for the reason that real estate is local. It can be better supervised and managed and safeguarded and dealt with on a rediscount basis, the same as commercial credit is handled through the Federal Reserve bank. That is the principle of our recommendation, and that relieves the Government from making direct loans. Then if they get in trouble with a loan, they can go back to the issuing mortgage company or bank and call on them to make good on the loan.

Senator GOLDSBOROUGH. Your suggestion impresses me very strongly, because I know of a great many young couples who have rented their houses and gone to live in cheaper quarters.

Mr. MACDOUGALL. That is it, exactly.

Senator GOLDSBOROUGH. With the ultimate hope of being able to return to their home.

Mr. MACDOUGALL. I would like to invite your attention to the fact that in 1921 this general question of home loan business and the need for national credit was covered in a Senate report by a committee of which United States Senator Calder of New York was chairman, with Senators Edge and Kenyon. They concurred in his report. It is very illuminating, in view of what has transpired since, pointing out at that time, as a practical builder and experienced real estate operator, the need for longer term, reasonable rate mortgages to encourage home ownership.

Many builders in the last 10 years have not only had to pay unreasonable premiums, but they have found themselves in the position that when a mortgage matured they sold it, we will say, not with the direct agreement that they would renew that mortgage, but at least an implied agreement, which most reputable builders like to protect, that a savings bank or an insurance company, or an individual, would continue that mortgage.

Senator GOLDSBOROUGH. As a matter of fact, they had to give bond in some instances.

Mr. MACDOUGALL. Sometimes they did. It has been suggested that the problem could be met to some degree by savings banks setting up two forms of deposit, one at a higher rate of interset, on a long-term deposit, and another at a lower rate of interest on a demand deposit. That might enable them, as with the insurance companies, for instance, to make long-term mortgages. The Metropolitan Life, as the records show, have been making loans over a period of 10 or 15 years, fixing the rate first at 6 percent, then 5½, and then 5, applied not only to individual houses, but apartment houses, and those loans have been very successful.

I referred particularly to the report of Senators Calder, Edge, and Kenyon of 10 years ago, to justify this recommendation, Mr. Chairman.

I hope, first, that Congress will enact this legislation at this session; and second, I believe that it would be very desirable, in view of the fact that it has taken 10 years on the road to progress from the date of the last Senate committee report on the subject of which we have any knowledge, to this time, that you appoint a committee, that Congress appoint a joint committee, or at least a Senate committee, to serve until the next session of Congress, and that you take testimony in each of the Federal Reserve bank districts, and get first-hand information as to the practical need for long-term mortgage credit on homes, because it is our opinion that foreclosures will increase. They are increasing in number, notwithstanding the fact that in the State of New York and other States we have certain limited moratoriums. In the county where I operate, in the city of New York, in January there were 535; in February, 425; in March, 508; in April, 481; and in May, 385. It varies from about 385 to 400 foreclosures a month.

Senator BARKLEY. Is that in New York City?

Mr. MACDOUGALL. That is in one county in New York City, one borough of New York City, which is largely a home community.

As general business conditions improve, there is a certain class of mortgages in which the lenders are more inclined to take advantage of the opportunity of foreclosure, after a building has been renovated and a large part of the interest has been paid, and the accrual of taxes, and you get a good tenant. They come in and say, "We want the deed, or you get out."

It is not reasonable to assume that our State legislature, or other legislatures of other States, could consistently continue these moratorium acts, because that is a deterrent to revived confidence in mortgage investment. Therefore we believe that inasmuch as housing is one of the major industries, and inasmuch as there is a practical need for a great many houses throughout the United States, it might be very much worth while, in the interest of saving the time of the congressional committee, to make that direct investigation.

In our national committee 3 years ago, at our convention in St. Louis, we recommended a local survey of all our board members to ascertain the need for new houses and to inquire what percentage of the buildings in their communities had passed beyond the useful period. We know, and I think you all know, that a large number of buildings in the United States have been used for human habitation that are not fit for the habitation of cattle. We have plenty of laws on our statute books if some of our local authorities would enforce those laws. Our distinguished mayor of New York is just now engaged in that policy, in the demolition of a great many of these East Side slum buildings. I think you are aware that in Chicago, in the approach on the main line, you will find a great many buildings that are not fit for human habitation.

The purpose of that survey was to enable us, as builders in the National Board of Real Estate Brokers, to determine in what locations, if any, and at what times, we should start new building operations.

As the previous speaker has said, the cost of lumber, brick, and material, and the cost of labor are all important factors, in our opinion, as to when we can build, and how we can build. Likewise the cost of money is an important factor. The factor of credit, in our opinion, is a prerequisite before you can get to the point of interest rates, cost of building, or labor.

That covers, Mr. Chairman, what I have in mind that I would like to present for your consideration. There is an actual need for the employment of capital throughout the United States in practically all of our large centers of population, as well as in many rural communities, for the construction of housing at this time, as evidenced by the report of the home-loan bank, through the submission to them of 72 letters from responsible agents on that question. I also wish to stress the point that this should apply to home owners, instead of being limited to "owner-occupied."

I thank you.

The CHAIRMAN. Are there any questions of Mr. MacDougall? If not we are very much obliged to you, Mr. MacDougall.

Mr. MACDOUGALL. Thank you, Senator.

The CHAIRMAN. Mr. Breheny.

STATEMENT OF WALTER W. BREHENY, REAL ESTATE AND INSURANCE BROKER, THE BRONX, NEW YORK CITY

Mr. BREHENY. Mr. Chairman, my name is Walter W. Breheny. I am a real-estate broker and insurance broker in the Bronx, New York City. I am a naturalized American citizen, naturalized in March 1919. I am an overseas War veteran; executive organizer of the Catholic big brother movement, New York City, 1913, and a member of the same until 1917; vice chairman of the New York chapter, Knight of Columbus relief committee; former director of the Knights of Columbus hotel; served 3 years as a member of the board of governors of that body; also one of the organizers of the Knights of Columbus Nation-wide unemployment committee, 1919, in securing employment for veterans and securing scholarships for graduates of our schools throughout the United States.

I wish to say in connection with this bill, Mr. Chairman, that I want to be recorded as being heartily in favor of and in sympathy with the plan proposed by our President in his message to Congress on May 14, 1934, entitled "Suggestions for legislation and housing," in connection with the speedy—I hope—enactment of this bill.

I represent no group. I speak as an individual, and I speak unofficially as a member of the organization I mentioned, and those organizations with which I have been affiliated in the past.

In my years of experience throughout Metropolitan New York, including the 5 boroughs, and my travels throughout a good many States of our country, I have gleaned a great deal of knowledge and experience.

There are, in my estimation, roughly 65 percent of the present dwellings, occupied and unoccupied, sadly in need of repair and renovation. I feel, gentlemen of this committee, that if you will give this careful thought and consideration, this is one of the greatest acts that was ever placed on the statute books of the United States. I speak from my own individual experience, not for publicity or notoriety, but from my observations in this country and abroad.

I was educated in a city where, for years, we tried to rid the city of slums which, I regret to say, exist at the present time, but under the new form of Government are rapidly being demolished. I know the city of which I have been a resident since I came to this country 22 years ago next month. I have been up five flights of stairs, and into all types of houses, in a volunteer capacity, and not on a salary basis with any of these organizations.

Our work has been for no particular class or creed, but for the betterment of humanity and for the citizens of the United States in general. I feel, regardless of the testimony that may be offered pro and con on this bill, that there are a group who have appeared and who will appear in connection with the enactment of this bill, that have some very selfish interests, and if I may have the permission of this committee, gentlemen, I would like to state for the record that on May 19, this month, there was a rumor or report that went into the newspapers of this country, emanating from the Capital of the United States, carrying a story to the effect that your able body plans to pigeonhole the President's home modernization bill, document 371. I, myself, do not believe that is possible, and I do not believe it will happen. As an individual citizen I urge you, therefore, to exert every influence to

prevent the postponement of action on this measure at the present session. Its enactment will prevent the bankruptcy of millions of home owners and individuals in this country this year.

An investigation will disclose to you the fact that many lending institutions are foreclosing on home and tenement property, renovating, modernizing, and compelling their own employees, gentlemen, to move into those houses, and then selling them on the basis of complete rental, and in a few months moving their people to a new location. This is the newest bank racket. It is, of course, legal but immoral to the last degree. The lobbies of the banks have been exceptionally active this year in Washington and in Albany, and they have, in many respects, had a good season. For the sake of thousands of good American citizens, I urge you to insist that the President's home modernization program be made law before adjournment.

Now, gentlemen, there are some slight changes that I would like to offer for your consideration, which you might make in the bill, which would please the majority—not the minority—of our good citizens of this country.

In connection with the President's recommendation the bill known as "S. 3603, the national housing bill", was introduced in the Senate by Senator Fletcher, Chairman of the Senate Banking and Currency Committee. Under section 2, gentlemen, if you have the bill in front of you, page 3 of Senate bill 3603, I personally, as an individual, take exception to the paragraph beginning with line 11 and ending with line 16, which reads as follows [reading]:

> The management of the corporation shall be vested in a board of directors consisting of not less than 5 nor more than 7 persons to be selected by the President from among the officers and directors of any existing board, commission, corporation, independent establishment, or executive department of the United States.

I respectfully suggest to the members of this committee that the language of this particular paragraph on page 3, lines 11 to 16, inclusive, be changed to read as follows. The language down to and including the words "selected by the President" is satisfactory, and from there on it should read [reading]:

> And those 5 or 7 members selected shall not have been previously connected with any existing board, commission, corporation, independent establishment, or executive department of the United States. The membership of the board should be comprised of experienced architects, construction experts, builders, licensed real estate brokers, and licensed general insurance brokers, and men of general executive business ability who are thoroughly familiar with housing conditions.

I mean no reflection, gentlemen, in making this request respectfully, on any others that have been considered. My reasons for making the foregoing changes and recommendations are due to the fact that this bill calls for the expenditure of the sum of $200,000,000 or any part thereof that may be necessary in the carrying out of the provisions of this act. This is a very serious matter, and needs the sole and undivided attention of the membership of the board to be appointed by the President, and this membership should not have any other official duties except the supervision of, and the carrying out of the duties charged to them under this act.

There is another paragraph in the bill——

Senator BARKLEY. We were asked, in the stock exchange bill that we are now considering, to provide a commission made up of stock-exchange experts. We decided not to do that.

Mr. BREHENY. I agree with you there, but what I want to bring out in my testimony is this, Senator Barkley, that there are a great many experienced men in these particular lines of business and professions who are unemployed at the present time, and have been through this cycle of the depression, which this country is not responsible for. It is our purpose to put everybody back to work, I think, as I glean from the wording of this bill, and not alone the unemployed, but those that may be interested, that will help the situation in general. I do not believe that this should become a racket. I am against rackets of all descriptions. It is not going to become a racket, because you gentlemen are going to use your good, keen judgment in seeing to it that when this bill becomes a law every section of this bill is properly covered and has been analyzed, to the extent that when it is presented for passage it will become one of the greatest laws we have ever had presented on the floor of the Senate.

Senator BARKLEY. I am somewhat in sympathy with that suggestion. I have heretofore expressed it in these hearings, with reference to the appointment of a commission of new people to administer this law, rather than picking out 5 or 7 men who are already overworked in some other department. But we have found heretofore, in the passage of legislation, that it is not wise to limit the President as to the type of men from whom he may make appointments. He can do all this that you are advocating under the general terms of the bill, if there should be an independent commission set up. Of course, if it remains as it is, he would have to select the best material he could find in the different departments now.

Mr. BREHENY. The reason I make this suggestion, respectfully, Senator Barkley, is because of the fact that the Home Owners, Loan Corporation is doing a big job and a great job. It is already overburdened and overwhelmed with applications. They have their hands full now, from the chairman down to the lowest grade employee in that organization, and I believe the President did not have in mind, when he made the suggestion, that any particular department should have jurisdiction over the bill. But the way the bill has been drafted, I do believe that this new commission, under the terms of the bill as I have read it—and I have read it very carefully, and I am open to correction and suggestion—would have all the available information, and the cooperation of all these Government departments in the carrying out of this particular bill and the duties and projects contemplated.

That concludes my suggestions and recommendations as to changes. If I may, I would like to spend half a minute in explaining the conditions of housing, which have already been well covered by some very able executives of different organizations who have preceded me.

There are conditions existing, not alone in New York City, but in every State in the Union, where houses are sadly in need of repair. They need a slate here and there to prevent the ceiling from coming down, probably in the winter, which would cause an outlay of a couple of hundred dollars, depending upon the property and where it is situated.

Then there is also the mortgage matter, which has been well covered before, but with respect to which I would like to offer this suggestion.

As a victim of these mortgage certificates that have been floated in my own State, some $35,000 of them, I believe it is a grand thing for the United States Government, through the Treasury Department,

to step in at this time, and I hope in the future, and supervise the activity of these corporations throughout the United States.

I am in favor of Government supervision in a great many cases. I think it is about time we came to that situation. Eventually these corporations will have the shirts off our backs if we do not have the Government check them once in a while. I am strongly in favor of the Government seeing to it that these mortgages are iron-clad, so that the mortgagee and the mortgagor are protected fairly and squarely.

I have no suggestions to offer on that, except as a result of my training in the school of experience. We have all more or less learned a good lesson from that—perhaps a bitter lesson.

I want to say that this body, which has been hearing the views of various people on this bill very patiently for the past week, should have the cooperation and the support of our citizens for the magnificent way in which the chairman and the members of this committee have conducted these hearings. I have attended many sessions here in Washington, purely from the standpoint of a student and business man, and I will say this, that the United States Senate is not receiving the credit that should be given it. The Senate has numerous tasks to perform, and I, as an observer, am in sympathy with the, but I hope, gentlemen, you will remember——

Senator BARKLEY. Praise like that is like a sheltering rock in a weary land.

The CHAIRMAN. Have you any other suggestions or amendments?

Mr. BREHENY. I have no further suggestions to offer, except that you give it speedy action on the floor of the Senate. Thank you.

The CHAIRMAN. We are very much obliged to you.

Is Mr. Caffrey here?

STATEMENT OF JAMES G. CAFFREY, CLEVELAND, OHIO, REPRESENTING OHIO ASSOCIATION OF REAL ESTATE BOARDS, THE BUILDING AND PROFESSIONAL ASSOCIATES OF OHIO, AND THE NATIONAL RETAIL LUMBER DEALERS ASSOCIATION

The CHAIRMAN. Will you please state your name, residence, and occupation?

Mr. CAFFREY. James G. Caffrey; 13122 Shaker Square, Cleveland, Ohio. I am sales manager of the Van Sweringen Co., in charge of Shaker Village, the largest residential development in the world. My services have been loaned at the request of the Ohio Association of Real Estate Boards, the Building and Professional Associates of Ohio, and the National Retail Lumber Dealers Association, in connection with this legislation.

The CHAIRMAN. Have you examined this bill, Mr. Caffrey?

Mr. CAFFREY. I have examined it.

The CHAIRMAN. Will you give us your views with respect to it now?

Mr. CAFFREY. Yes, sir. May I state whom I am representing?

The CHAIRMAN. Yes.

Mr. CAFFREY. I am representing the Ohio Association of Real Estate Boards, the Building and Professional Associates of Ohio, and the National Retail Lumber Dealers Association, which is an organization of 23,000 members in the 48 States. Do you want my experience?

The CHAIRMAN. Yes.

Mr. CAFFREY. I have been a builder in Washington and in New York City. I have been in the real-estate business in Florida; sales manager of the Montauk Beach Development Co., Long Island; sales manager of investment trusts on the deferred payment plan; and a member of the Bar of the District of Columbia.

Much of the discussion that has gone heretofore, not only at these hearings, but while we were conferring with the administrative officials pertains to demand. For a long time those who are more interested in conserving the present mortgage feature have denied the necessity for building. There have been many statements made to the effect that there is plenty of mortgage money available throughout the country.

I believe that every real-estate man and every lumber dealer in the country—and we have that borne out by facts and surveys, which I shall not go into in detail, but which are in this statement—can testify that in very few places in the country today can one find any mortgage money of any description. Government officials, through the N.R.A., found, with the help of experts, that there was a demand for 800,000 homes. That statement has been questioned by some people.

The American Builder and Building Age Magazine during December 1933 and January 1934 made a survey in 422 sample towns in 35 States, and found that there was a necessity for $174,546,700 for new homes, and $71,000,000 for modernization and repair. This survey did not cover the entire country, but it was very fair. They did not pick out the spots where the demand was greatest. It was a cross-section survey of the country.

The American Legion made a similar survey in California, and has on hand 20,499 definite applications for loans with which to build homes, according to Warren H. Atherton, chairman of the veterans' home bond issue campaign committee.

James S. Taylor, chief of the Housing Division of the Department of Commerce, recently stated that there was a necessity for 800,000 homes, and that the approximate number of single-family houses constructed in the United States from 1923 to 1932, inclusive, was 2,439,000, and during the first 5 years of this period an average of 493,000 units was built each year, and only 35,000 units in 1933.

The National Association of Real Estate Boards has touched upon that. Mr. MacDougall made a survey throughout the country, and found a great demand, with no mortgage money available.

Mr. W. C. Miller, formerly president of the National Association of Real Estate Boards, states that there are 4,000,000 families living in doubled-up quarters.

Senator BARKLEY. Mr. Miller of Washington?

Mr. CAFFREY. Yes, sir.

Senator GOLDSBOROUGH. What was that number?

Mr. CAFFREY. Four million families doubled up.

I made a survey recently, in what we call "Shaker Village", which is a city in itself, but is really a suburb of Cleveland, with a population of 28,000. In that area we have less than 10 vacant single-family homes, less than 20 2-family units, and in 740 apartment-house units we have less than 20 vacancies.

In the city of Cleveland, according to the real-property inventory there are 12,000 families doubled up.

A city-wide survey conducted through builders, architects, and real-estate men brought estimates of the necessity for 7,181 homes.

Allowing for overlapping in territories and miscalculations—and undue optimism, by the way—I estimate that there is a real demand in greater Cleveland for at least 3,500 homes requiring about $12,000,000 mortgage money. This estimate does not take in outlying territories, and it is safe to say that there could be used about $18,000,000 in mortgage financing. If there was an agency set up on a national basis with the funds to carry out its purpose and similar surveys were made in all the cities, it would undoubtedly substantiate the statements of those who have made surveys along other lines. I believe that the real demand for homes is just as incapable of determination as it is to accurately assert who wants to buy an automobile before they are placed on the market. The same thing applies to furniture, refrigerators, clothing, or any other commodity. Suffice to say, there has been presented to the Government and to Congress a sufficient amount of proof as to eliminate all doubt from the minds of those who are interested, that the demand and the necessity exist. That there is no financing available has also been shown to the Government; that the Government officials are aware of this condition is evidenced by the statements of those who are most intimately interested in this phase of Governmental activity.

It is rather interesting to someone who sits out in the field and learns from real experience, to listen to the statements of what I might term theorists, who state that there is plenty of mortgage financing, with no demand, when we have had builders for the past 3 years who have not had a job, coming in and asking us to get mortgage money, and when we know that 300 architects in the city of Cleveland have been on the C.W.A. work because they have not had a job.

On the other hand, in connection with the statement that has been made, to the effect that there is plenty of mortgage money, we made a survey through the builders, architects, and real-estate men, and found no mortgage money in any financial institution.

This question of demand, from a practical standpoint, I think, is the hardest thing in the world to prove. The survey about occupancy, vacancy, number of families doubling up, and so forth, has some bearing upon the subject, but there is only one way that I know of in which you can determine the ambition or desire of any man about a home, and that is a personal call upon him to discuss the matter with him.

This country's prosperity is due, in great measure, to salesmanship. The wheels of industry depend upon it. Every industry in the country employs salesmen to go and find the man who wants to buy something. All the estimates we can make are merely theories upon statistics which we gather, and there is only one way to find out whether there is a demand. Had we the facilities with which to find out what the real demand is, by making those contacts, no one would have dared to question the subject of the necessity for this legislation.

Following out that idea from a practical standpoint, I made a survey among lot owners who have been paying taxes, and who want to build homes, or who, I thought, might want to build homes. This is one of the most difficult ways in which to find the demand, because very few people are willing to put down in writing whether they want to buy a home, and how much money they have, and so forth. In the first place they do not like to disclose their financial

condition, and in the second place they do not want to be bothered with salesmen. Every salesman knows that.

However, I asked that question predicated upon the possibility of this kind of legislation. I asked them, if money were provided along these lines, whether they would desire to build. I will not go into the details. My questionnaire, in substance, could be sent out under this bill. I found out that 66 people in this area are ready to go ahead immediately to build homes, to the aggregate amount of over $700,000. I asked them in that questionnaire to tell me whether they had tried to get loans from building and loan associations, banks, or insurance companies.

Here is one reply that says "You could not get it." Another says "No use to try." Another says "None", speaking of results. One said "They just laughed at me." That is typical.

Recently the National Retail Lumber Dealers Association, in a hurried attempt to supply the officials with the same kind of evidence, got back the same replies. Some of the statements coming from the National Retail Lumber Dealers Association in some of the States were like these: "Banks never did loan except for short terms"; "Frozen"; "Unable to make loans past 2 years"; "No results at all"; "Nothing doing"; "Try and get it"; "Refused"; "Waste of time."

Those are typical.

Senator BARKLEY. I do not suppose that anybody can dispute the fact that commercial banks have never engaged in the practice of making loans to people for home building.

Mr. CAFFREY. That is true.

Senator BARKLEY. In the very nature of things a commercial bank could not do it, because in most cases their assets and deposits had to be kept liquid. They had to be of short-term duration, and they were not set up for that purpose.

Mr. CAFFREY. That is true, but these inquiries were made to the ordinary loaning institutions.

Senator BARKLEY. I know; but the question of getting loans from banks constantly recurs in this testimony. Nobody ever depended upon banks to lend them money to buy a home.

Mr. CAFFREY. I have heard some testimony as to the necessity for certain legislation to put the C.W.A. to work——

Senator GOLDSBOROUGH. The banks lend it indirectly for that purpose, through the loaning associations.

Mr. CAFFREY. Before I get off that subject, I am going to submit for the record a resolution of the mayors' committee of Cuyahoga County, consisting of 53 mayors, testifying along the same lines about which I have already spoken.

The Cuyahoga County Mayors' Association, composed of mayors of 53 subdivisions in the area of metropolitan Cleveland, at its meeting, adopted the following resolution:

Whereas the construction industry is a basic industry and its recovery necessary to return of better times for our people; and

Whereas it is apparent that large-scale housing projects will affect only the largest centers and at the same time employ a comparatively small number of men; and

Whereas various canvasses, real property inventories, censuses, and other surveys indicate a definite demand for single-and two-family homes and show an impending shortage of such homes; and

Whereas private (usual) financing agencies find themselves at this time unable to function in making of construction loans; and

Whereas legislation now is pending in Congress for the making of Federal loans for construction of single-and two-family houses and for modernization, alterations, and repairs: Therefore, be it

Resolved, That the Cuyahoga County Mayors' Association of Cuyahoga County, Ohio, does hereby request and urge upon members of the House Banking and Currency Committee immediate action looking to early reporting out of a bill which shall provide for adequate lending of Federal funds to meet this need, in view of the fact that the building season will be open throughout the country within a few weeks; and that this association does respectfully request favorable action upon such Federal lending from all members of both Houses of Congress.

I heard some testimony as to whether or not this legislation was necessary, because no emergency existed. On December 4, I sent M. J. McDonough, president of the Building Trades Department of the American Federation of Labor, the following telegram [reading]:

Please answer as fully as possible by night letter, collect, the number of persons normally engaged in building trades and allied industries. Number now unemployed. Government states shortage 800,000 single family homes in United States. Providing financing can be obtained to start new construction nationally, what is your opinion of number of workers affected? Appreciate any other opinions, statements, or data you care to furnish.

His reply was [reading]:

Your telegram received. Under normal business conditions approximately 1,500,000 men employed in building construction at the site; with its many ramifications possibly 5,000,000 men depend on building construction for their employment. Eighty percent of these workers are now totally unemployed.

M. J. McDonough,
President Building Trades Department.

There is no question in my mind—because there is no child labor in this industry—that at least 15 million more depend upon these 5 million men normally engaged in this industry. If that is not an emergency, I would like to have an emergency defined. These men have not worked for 2 or 3 years. In the city of Cleveland alone we have more than 50,000 men walking the streets. Until recently there were 5,000 men employed in the C.W.A. That work has now ceased, and those men have had no work for a number of years.

The Chairman. A great many of these are skilled workers, too.

Mr. Caffrey. Skilled mechanics.

Another favorite argument is that no building is necessary because there are enough home units to care for the population. These surveys are sometimes relied upon to prove that there are enough existing structures. There never has been a time in the United States, except when we have had floods or fire, or something like that, that we had to call out the army tents to house the people. There may be enough roofs under which to put these people, but that does not prove whether there is any demand for new construction.

I maintain that until we get these 5 million men working at their own trades, making money at their own trades, we are never going to be able to liquidate the frozen assets of these existing institutions, because those are the people who normally will purchase these reclaimed houses. Therefore, I say that unless we put money, through legislation of this type, into the pockets of these people, we are still going to keep these other institutions frozen, and I think that is the most favorable part of this legislation insofar as these other institutions go.

A building program will give employment to material supply companies with their clerical and sales personnel; to the railroads and boats used in shipping—1 out of every 5 carloads of freight in 1929 consisted of construction materials, contributing 22 percent of the total freight tonnage and 15 percent of all freight revenue; to the quarries, mines, and lumber camps which deal with the raw material; to the factories and plants which transform these raw goods into finished products for building; to common and skilled laborers; to real-estate men, attorneys, title companies, bankers, insurance men, civil engineers, architects, decorators, landscapers, advertisers, public-utilities men, and all the way down the line.

The building industry slipped from a peak in 1925 of $2,461,546,270 to an estimated amount in 1933 of around $100,000,000. In 1929 the value of the products produced was $5,532,590,212; 10.6 percent of the total number of employed in all manufacturing in 1929 was in the building industry. Still there are those who would prevent this legislation, and who say to the 5,000,000 men in the building industry, and all the rest of these people who are involved in the ramifications of this industry, "You just sit idly by until we liquidate our frozen assets, and then we will lend you money in the same old way."

The same old way means a first mortgage of 50 or 60 percent, with a second mortgage, upon which the builder immediately takes a 25 percent discount, and passes that along to the home owner. If we must go back to the same old way of lending or borrowing, or home building, then this legislation, or any other legislation, is not going to help us, because what we are after is permanent improvement. We are after the leadership of the Nation to show us how to eliminate this high financing.

The home builder in the United States has never had a chance. In the first place, he had to get 40 or 50 percent, or else be subjected to a second mortgage. In many instances he could not accumulate that 40 or 50 percent, and consequently he had to defer the purchasing of a home until such time as he could pay it in a lump sum.

What happened in 1928 and 1929 should be a lesson to us. The people had money in savings banks and other institutions, and all at once they took it out and threw it into the stock market, and then they had nothing. Their entire life savings were gone.

One of the finest purposes of this bill is the fact that it gives a person an opportunity to build an estate along the most permanent and constructive lines possible. He will be able to buy his lot, or, if he owns his lot, he will be able to borrow enough money to build his home, and from that time on a shelter for his family is provided, and his savings are provided for, and so forth. Under the terms of this legislation he is protected. He is protected from the high-pressure salesmen who will come in and try to sell him stock in worthless propositions. That is one of the finest things that has happened.

The CHAIRMAN. Do you believe in the amortization plan?

Mr. CAFFREY. Absolutely. Without that particular phase of the bill we would get right back to the old type of financing. I mean to say, we have a mortgage on there in a lump sum. A man is always putting money away for the purpose of paying it off sometime, and before he ever arrives at that point somebody takes it away from him. That is what has happened.

I mentioned the fact that I was sales manager for an investment trust company in New York, for this reason. Around 1929 and 1930 and 1931, practically every brokerage house had an investment trust in the process of formulation. Along about 1930 came the investment trust on the deferred payment plan, designed to sell to the man who could save $10, $15, or $20 a week. The fellows who sell those things are the best salesmen in the country. They have to be. They are selling an intangible. I say that unless something is done along this line, whether it is done by the Government or by a private institution, to make it possible for the investor to put his money into a home, we are not going to give all these people in the country the opportunity of buying a home. Without the amortization clause in there we cannot do that. It is the principle upon which all big selling schemes are based. The 5-, 10-, 15- and 20-cent industrial life insurance is based upon that principle, and every other plan along the same line.

I want to say something about the question of the 80 percent. There is an erroneous opinion around that loans were only made on a 50 or 60 percent valuation. They were made on a 50 or 60 percent selling price, not a valuation. I happen to know, because I happen to be living in a house which I could reproduce today for $18,000, that has a $25,000 building and loan mortgage on it. That is only an instance. There are thousands of them. The State of New Jersey is a good example. The State of Pennsylvania, with its second mortgage in the building and loan association, is another good example.

Properly administered, this bill, with the safeguards set up so that the home owner is going to get intrinsic value, will provide an 80-percent loan that is safer than a 60-percent loan. As an example, in the old days, when you had to figure the 25-percent discount and the bonuses and the service charges and everything else, that went into the cost. In the case of a house that cost $10,000 for the house and lot, as this bill contemplates, there was added to it this list of additional charges, and then on top of that went the 25-percent discount for the second mortgage, and on top of that went a fictitious value, so that it was actually offered on the market for about $15,000, and the 60-percent loan became about a 90-percent loan on the real value.

This bill does not contemplate that. I think it is the most constructive piece of legislation that I have seen in a long time.

I will say this for the critics of this bill, that the men who drafted this bill, in the opinion of the industry, are thoroughly competent. They approached it in an intelligent manner. They were not exclusive to the point where they refused to confer with those who had some experience, and I believe they had many, many conferences, and approached it from all angles. We are thoroughly satisfied with the bill. We are not opposed to the amendment that Mr. Schmidt offered. I see no ill effects from that, and probably a whole lot of good, from a part of the business generally in which we have not been as much interested as Mr. Schmidt and his advisers. But we have been interested from this home-construction viewpoint, and we believe that this bill should be passed at this session, because if it is not passed at this session, I do not know what to predict regarding this unemployment situation.

The CHAIRMAN. Have you examined the Bodfish amendments?

Mr. CAFFREY. Mr. Bodfish made one suggestion about a $500,000,000 appropriation for loans to the building and loan associations. I will say this. Early in December we submitted a plan along that line. Mr. Duffey, of Toledo, introduced it in Congress. It contemplated something like that. However, the basic regulations which would back up that particular bill have much in common with the present legislation, although the present legislation was worked out expertly and ingeniously. I would have no objection to the $500,000,000 revolving fund part of it, but I do not believe that we should eliminate title II. We have never had any idea of harming any existing institutions, or any hope of doing so, because our original suggestions provided for the money being loaned through existing institutions, which these experts have provided for. But if, in communities, certain types of institutions are unable to function, and these large mortgage companies which these experts have provided for can take care of that business, then I would say, regardless of who is hurt—and I do not seek to hurt anybody—this whole industry and all these unemployed men cannot be sacrificed because somebody wants some particular thing.

I will say this for the Ohio Association of Real Estate Boards and the National Retail Lumber Dealers Association and the Building and Professional Associates of Ohio, which represents a cross section of the entire industry in that part of Ohio, that we are thoroughly in accord with the bill, and we hope that nothing will be allowed to happen that will keep it from being enacted into legislation this session.

The CHAIRMAN. What do you think about Mr. MacDougall's suggestion for eliminating the words "owner-occupied"?

Mr. CAFFREY. I think there is a lot of merit to that suggestion. I quite agree with the conclusion drawn by the Honorable Senator and Mr. MacDougall himself. I have no objection to that at all.

The CHAIRMAN. If there are no further questions we are very much obliged to you, Mr. Caffrey.

STATEMENT OF WILLIAM C. O'NEILL, SECRETARY-TREASURER, BUILDING TRADES DEPARTMENT, AMERICAN FEDERATION OF LABOR, WASHINGTON, D.C.

The CHAIRMAN. Mr. O'Neill, please state your name and residence.

Mr. O'NEILL. William C. O'Neill; secretary and treasurer of the building trades department of the American Federation of Labor.

Mr. Chairman, I do not intend to take up much of your time, because many of the questions have been covered here today, but in the building-trades industry, for the last 4 years, 85 percent of the building-trades mechanics have been out of employment, and we in the building trades department are in favor of this bill, due to the selfish fact that it will give some employment to our men. President McDonough, of our department, has met with Mr. Caffrey and the presidents of the various national associations that are interested in this bill. He is very familiar with it, and has sent out letters to the various Senators and Congressmen, putting himself and our department on record in favor of the bill.

In the building trades there are over 1½ million workers employed at the site of construction. The figures of our Government show that the average family of a building-trades worker is about four.

In a recent meeting with President Roosevelt he stated to us that he was familiar with the fact that for every building-trades worker who was put to work, there would be four other persons put to work in manufacturing, fabricating, and so forth, in connection with the commodities that go into the erection of a building, such as quarries, railroading, lumber yards, the delivery of lumber, the forests, and so forth. So, we are very much interested in the bill, and we would ask you gentlemen to give this bill some speed. Our members have been out of work for a long time. Many of our organizations, international and local, have used their funds to give to their members, to keep them from going on the Federal Emergency Relief. The local union to which I belong gave away, in 60 weeks, $32,000 to its members. That is just a local union, now, in a city, and not an international union. That money was given to the men according to their needs, a single man getting from $5 up, a married man according to the size of his family and the length of time he had been out of employment. They received substantial sums, as much as $40, $50, and $60, sums that could really do some good. Most of the international unions have done likewise.

Senator BARKLEY. That money is contributed by those who happen to be fortunate enough to be at work?

Mr. O'NEILL. Absolutely. That is the only way the money can be collected. The men who are working voluntarily put an assessment on themselves, and this $32,000 deal to which I refer involved an assessment on each and every man of $2 a week. That is, every man that was working. They created a fund of $32,000, and that money was given to the men. All the man had to do was to sign a receipt that he received it. He never had to pay that money back.

Other funds of that same organization that was created through a number of years were loaned to those men, but most organizations have done likewise. Some of the international organizations have given millions of dollars. I know that Senator Wagner, Madam Perkins, and Mr. Hopkins have been before you telling you the need, and I am just here asking this committee to expedite it, because we need relief in the building-trades industry.

I thank you.

Senator BARKLEY. You said a while ago that there were a million and a half men employed in the building-trades industry. You mean in normal times?

Mr. O'NEILL. In normal times there are a million and a half men employed at the site of construction.

Senator BARKLEY. How many are there employed now?

Mr. O'NEILL. Over 85 percent of them are out of employment, and those that are employed are employed catch-as-catch-can. Our figures show that more than 85 percent of our men are out of employment. The others that are employed are working catch-as-catch-can. A man will go to work today, and he will make a couple of hours, or perhaps he will go to the job, or to the office every day, and probably in the week will not get more than one day's work, but still he is not on the out-of-work list, because he still has a possible job.

Senator BARKLEY. Does that mean that these 85 percent are not employed at all, or not at building trades?

Mr. O'NEILL. Eighty-five percent in the building trades are not employed at all, and many of them are on the Federal Emergency

Relief, and there is a big majority of them who are not, because under the rules and regulations at the present time of the Federal Emergency Relief a man that has any civic pride does not like to go to the employment office and register there and pauperize himself. He will borrow money. They have received money and have used that up, but we have a number at the present time who are not applying to the Federal Emergency Relief and going on their rolls. In many localities the men who are working now are being assessed to keep those men off that roll.

The CHAIRMAN. You state that 85 percent are unemployed. About what number would that be, if you have any idea?

Senator GOLDSBOROUGH. Eighty-five percent of a million and a half.

Mr. O'NEILL. Eighty-five percent of a million and a half. The others, who are working, are working catch-as-catch can, as the saying is in the building industry. If you have a job for me today you will give me, perhaps, 1 hour, or 2 hours. It may be 3 or 4 days.

The CHAIRMAN. That million and a half does not include those that are engaged in producing the material.

Mr. O'NEILL. No; at the site of construction.

Senator BARKLEY. He said that for each one of them there were four others.

Mr. O'NEILL. Those are figures given to us by President Roosevelt, coming from the Department of Labor, that for every building-trades worker put to work there would be four others put to work in the forests, on the railroads, trucking, in the quarries, and such as that.

Senator BARKLEY. In all, about 7½ million men.

Mr. O'NEILL. Yes.

Senator BARKLEY. If building operations were resumed on anything approaching a normal basis.

Mr. O'NEILL. Yes; the figures also show that the average family of the building-trades worker is four—and when the building-trades worker gets to work, he is then able to rent a place.

I have been in Washington since September. Prior to September I was stationed in the Southwest. I had half a million square miles to cover, including Texas, New Mexico, and Arizona. In that district I have seen on the railroad trains and along the highways thousands of men and women with children, riding the freight trains. Anybody who would go into Texas, from Fort Worth to El Paso, which is 680 miles, any day, on any train, would see 500 men on the trains, with 50 to 60 women, and in many cases children, riding on the trains.

The reason I bring that out is this: I do not say that they are all building-trades workers, but there are a great many of them that are building-trades workers. The desire of every working man, whether he is a building-trades worker or not, is to have a home of his own—as they express it, when you mix with the workers, "I want to be in a position to put my feet under my own table." Every woman wants to reign as queen over her own home. She does not want to live with her father-in-law, or sister-in-law, or her aunt, or somebody else.

Senator GOLDSBOROUGH. Or, as the witness who preceded you expressed it, "an island of safety."

Mr. O'NEILL. Yes. I did not mean to take up so much of your time, because the case has been ably covered by many of the previous speakers, and I agreed to cut my little talk down to 5 minutes.

That condition is true not only in the Southwest, but all over. They call it the "rabbit path", and the people who have no work go to the warmer climates to get away from the cold climates. You have undoubtedly seen a good bit of it down South.

The CHAIRMAN. We call them "snowbirds" in Florida.

Mr. O'NEILL. I have traveled all through that district, and you have seen it as well.

We would like to see you gentlemen speed this thing up, because there is a grave need of it. If I may take another minute of your time, in the labor movement, which I have the honor to represent, our men are beginning to get a little difficult to handle. Generally speaking, our members want to do the right thing. Every man knows right from wrong, and the majority of our members want to do the right thing, but they think that we are not doing enough down here at Washington—that we should go down to the Senators and Congressmen and tell them what they ought to do, and if they do not do it, we are at fault, and so forth. Our men are beginning to get hard to handle, and they are listening to that silver-tongued orator that comes into our meetings and spellbinds them and tells them that "your Government is not right." You know what it is in the Northwest. You know what it is in the Southwest, with these spellbinders coming in and trying to tell our men that the mode of government is not right. Our mode of government is right, and no one could give you a good argument that it is not.

There is no other country in the world that has as good living conditions as we have here. I have done a little traveling, but not a great deal, in Europe. We have a good Government, and pretty nearly every good American citizen admits that, but yet these spellbinders and silver-tongued orators are going around to the meetings, where there is a lot of employment, and telling our men that they should belong to this society and that society, and so forth, and our men now are beginning to get a little hard to hold.

We feel that you are doing all you can to expedite it, but we do ask that you give this grave consideration. We are in favor of this bill, and we think it will go a long way toward relieving unemployment.

Senator GOLDSBOROUGH. Wouldn't you call that type of man something besides a silver-tongued orator?

Mr. O'NEILL. They can put a good story across. There is no question about it. They spellbind the dear brothers.

The CHAIRMAN. Mr. O'Neill, what is the present tendency in the building-trades industry? Is it on the upgrade?

Mr. O'NEILL. Not so very much. The C.W.A. was a Godsend to us. It came at a time when our men needed the work badly. The figures of Harry Hopkins show that 5 percent of the $400,000,000 was spent on work where the building-trades men were employed; yet it did a lot of good. Our members were sending in letters to us telling the good it did, so we wrote a letter to President Roosevelt telling him that while we received only 5 percent of this, we felt that we would not be selfish in writing this letter. If we had received 90 percent we would be selfish. We showed them the figures and told

them it did a lot of good. We would like to see that thing continued, but for some reason it cannot be. They are doing a lot of good yet with it, but the very fact that a man must admit that he is a pauper before he gets any relief from the C.W.A. means that many of our men are not getting anything out of it.

The CHAIRMAN. You really believe that there is a need and a demand for increasing the building trades industry?

Mr. O'NEILL. Yes; there is great need of it.

The CHAIRMAN. Very well. We are very much obliged to you, Mr. O'Neill.

Mr. Lewin.

STATEMENT OF LEWIS P. LEWIN, PRESIDENT LEWIN LUMBER CO., CINCINNATI, OHIO

The CHAIRMAN. Mr. Lewin, please state your name; residence, and occupation.

Mr. LEWIN. Lewis P. Lewin, 2121 Dana Avenue, Cincinnati, Ohio; president of the Lewin Lumber Co., Cincinnati; former president National Retail Lumber Dealers' Association; member of the executive committee of the National Retail Lumber Dealers' Association for 15 years; at present serving as treasurer; former president of the Ohio Association of Retail Lumber Dealers; director at large at present of the Ohio Association.

The CHAIRMAN. Mr. Lewin, you have examined this bill, have you?

Mr. LEWIN. Yes.

The CHAIRMAN. You understand it?

Mr. LEWIN. Yes, sir. I went over it some time ago, Senator.

The CHAIRMAN. If you have any views or suggestions about it, we will be glad to hear them.

Mr. LEWIN. I represent the Ohio Association of Retail Lumber Dealers, with Mr. Caffrey, who has spoken here this morning. I am treasurer and chairman of our finance committee, which has been working on a bill of this character. Prior to 1932, from the time of the collapse, we realized that there was no possibility of any real amount of home construction. We are in the lumber business. I am a retail lumber dealer, and also interested in manufacturing enterprises. We made no particular effort to encourage construction.

Along about the latter part of 1932 we began to hear from some of our customers that they were considering home construction, but they could get no money. We could not see where they could get any, and we made no special effort to get it. All the existing financial institutions were not lending money, and would not under any circumstances, as Senator Barkley stated a while ago. Commercial banks are not in a position to lend money for any length of time, except as Senator Goldsborough stated, indirectly through lending to other institutions and taking the mortgage as collateral.

Last year, at the beginning of the year, we found that there was an accumulation of demand for home construction. At that time I was appointed chairman of this committee, which was looking after the necessities, and we began to make a Nation-wide investigation of the necessity for home construction. We went from Maine to California, and from the Rocky Mountains in Canada down to the Gulf of Mexico. There is a very widespread demand, as we found it, for home construction.

The retail lumber dealer, I think is in a better position than any other individual to state just what the needs are, because we reach into every village and hamlet of the United States. We are in close contact with contractors and prospective home buyers directly, and naturally we ought to be in aposition to have first-hand information.

In sending out this questionnaire we told them we did not want them to be biased; we wanted real information, and if there was no need for home construction we wanted to know it. There are a few isolated sections of the country where there is only a slight demand, but practically all over the country there is now a very decided need for new construction.

We are in the retail lumber business, and naturally we had, to an extent, a selfish motive, just as the gentleman who preceded me, representing the Federation of Labor. We are looking out for our business. We do not deny that, but that is only human nature. We are all trying to keep ourselves from the poorhouse, and if the building industry does not improve I think that is where we are going to land. We will all become C.W.A. or P.W.A. workers.

The statement was made several years ago that 25 percent of all the labor in this country was either directly or indirectly connected with the construction industry. I think that the amount is even larger than that. I think if you take all the ramifications of the various industries which furnish materials that go into houses, such as sawmills, and so forth, the proportion will be much greater. You heard Dr. Compton speak this morning of having 1,000,000 men employed in the manufacturing of lumber. There is probably nearly half that number engaged in the selling of it. Mr. Caffrey's organization has 243,000 members, and if you take the people who manufacture plumbing supplies, brick, lime, cement, and all the kindred and affiliated industries, you can see that it is an enormous number. I believe it will run to pretty nearly one third of all the people in this country who are directly or indirectly affiliated or connected with the building industry.

I do not want to take up a great deal of time here, but there have been some slaps made at the building industry. The statement has gone out that there is plenty mortgage money. I think Mr. Caffrey touched on that. One of the reasons given why there was no building was that the prices of materials were too high. I did not come here for the purpose of making any talk against any financial institutions, and I do not propose to do so, notwithstanding the fact that they have made slaps at us, but I am going to show you gentlemen some facts.

I have here a magazine published by one of our critics, the American Building Association News. I will just take it at random. There is a table here showing certain building cost index numbers. You have it from Atlanta, at the top here, to Seattle at the bottom, in various areas.

Senator BARKLEY. What is that publication?

Mr. LEWIN. It is the American Building Association News. I want to say, in this connection, that I think the statement was made yesterday—and it needs refuting—that in 1931 materials were lower than at any other time. I think that is incorrect in the building industry. I think in the beginning of 1933 they were very much lower. I know they were in the lumber business—I should say probably 20

percent lower. I think that obtains with all other kinds of materials used in home construction.

In Atlanta, in 1933, the cost of a frame building was based at 64.6. I think this goes back, probably, to an average period prior to 1929. It does not state here just what that is based on, but I am taking the average for 1933. Then in January 1934, that had increased to 68.4, and in April 1934, it was 72.8. That means that there has been an increase of 8.2 over the very low period of 1933. We all know that the administration has demanded that we shorten our hours and increase our wages, which we have done, I think, very consistently, and that, to a large extent, explains why these increases have taken place.

There have been no exorbitant or extravagant increases made, and I can say, for the building industry—the lumber industry, at least—that if conditions become better, so that the amount of our business increases, we are very ready and willing to make a percentage decrease. We do not want to increase prices. We want to encourage building. We want to get it up to a maximum. We want to employ these men that are unemployed. That is one of the things that we are working for.

Senator GOLDSBOROUGH. You would rather sell a larger volume at decreased prices?

Mr. LEWIN. Exactly. That is just what we are endeavoring to do. We have no desire to increase prices. You can go through this entire area here and you will see how very small the amount of the actual increase is. Prices are very much less today than they were in 1927, even with all these increases in wages and reduction of hours. A man can build a house today much cheaper than he could build it then.

Senator BARKLEY. Mr. Chairman, I suggest that that table be put into the record.

The CHAIRMAN. Let that go into the record.

(The table referred to is as follows:)

[From the American Building Association News, for May 1934]

RAPID RISE OF BUILDING COSTS

(By Clarence J. Moore)

The rise of construction costs during the past few months has been caused by the increase in building material prices which have resulted largely from the adoption of the N.R.A. code for the building material industry rather than from changes in the relation between supply and demand. The fact remains that whether or not these prices are economically sound due to the lack of building demand, they are with us today and we will in all probability see further increase in the next few weeks as other codes go into effect and labor rates are further adjusted.

The use of index numbers as a means of determining the magnitude of the variations of the level of prices or costs is analogous to the use of thermometers to measure the variations in temperature. Just as most people are able to distinguish through the faculty of their temperature sense whether it is hot, warm, cool, or cold, so do most people have at least a rudimentary idea of "a high cost of living" or "a low level of prices." Very little idea is had, however, as to how hot or how cold it is or as to how high or how low the level of prices is. The thermometer was invented as the measuring device for temperature changes and the index number was invented to measure the magnitude of variations in the level of prices.

Index numbers of construction costs differ from most of the index numbers with which the reader is familiar, such as those representing the market prices of stocks and bonds. The former are applicable only in the specific territory where the building material prices and the labor rates of wages from which they are calculated prevail, while the latter are usually applicable to the country as a whole. Moreover, construction cost index numbers differ with the type

of building because the quantities of the different building materials and the amounts of the different classes of labor differ in each type of building. For example, in a frame residence the item of lumber has more influence than the item of steel, while in the steel frame factory building steel has more influence than lumber. Since the changes in lumber and steel prices do not have an exact mathematical relation, the index numbers for frame residences and steel frame factories would not vary in direct proportions. These factors have been taken into consideration in the calculation of the Boeckh Index Numbers.

Building cost index numbers of E. H. Boechk & Associates, Inc.

[Construction costs compared with United States average prices 1926–29=100]

Area	Residences		Apartments, hotels, office buildings			Commercial and factory buildings				
	Frame	Brick	Brick and wood	Brick and concrete	Brick and steel	Frame	Steel	Brick and wood	Brick and steel	Brick and concrete
Atlanta:										
1933 (average)	64.6	69.6	68.3	77.9	76.1	62.7	79.5	71.8	79.0	82.0
January 1934	68.4	73.0	70.8	80.6	79.6	67.9	89.8	72.8	83.1	84.7
April 1934	72.8	78.4	76.4	84.1	83.6	71.4	91.3	80.1	86.3	87.2
Baltimore:										
1933 (average)	83.4	85.3	81.9	75.6	77.5	83.9	76.7	78.1	76.0	75.3
January 1934	80.6	85.1	81.5	85.4	83.1	79.1	83.2	83.7	83.9	86.8
April 1934	83.7	89.0	85.5	88.8	87.5	81.7	85.3	88.8	83.0	89.6
Boston:										
1933 (average)	84.8	91.2	87.7	93.7	89.3	84.7	92.8	88.9	94.9	97.3
January 1934	90.4	97.4	93.7	98.9	94.6	88.8	96.9	94.8	99.1	102.1
April 1934	96.2	102.4	98.4	101.8	98.9	95.2	99.3	98.2	101.6	104.2
Chicago:										
1933 (average)	98.8	102.3	96.8	98.4	94.0	103.4	94.2	92.2	98.8	102.2
January 1934	93.3	98.9	94.1	103.8	97.9	95.4	103.9	92.5	104.3	109.4
April 1934	94.3	100.4	95.9	106.5	101.5	95.8	105.8	95.2	106.6	111.7
Cincinnati:										
1933 (average)	77.9	83.1	80.5	81.1	80.7	76.0	83.0	82.1	83.1	81.0
January 1934	82.7	87.2	84.2	86.8	85.4	81.7	89.2	84.7	87.6	88.4
April 1934	86.5	92.4	89.6	91.3	90.6	83.8	91.4	92.3	91.8	92.6
Dallas:										
1933 (average)	62.4	67.3	65.1	69.2	69.8	60.5	79.7	66.3	72.5	73.3
January 1934	81.5	86.0	83.4	84.5	84.2	79.6	92.3	84.6	87.8	84.8
April 1934	83.5	88.0	85.4	87.0	87.7	81.6	94.3	86.6	89.8	86.8
Detroit:										
1933 (average)	80.2	86.1	83.1	86.6	84.4	78.9	87.7	83.1	86.8	90.2
January 1934	83.9	86.4	82.8	85.5	83.9	84.8	87.6	81.8	86.0	84.8
April 1934	86.1	88.8	85.2	88.2	87.6	86.8	89.6	84.5	88.3	87.0
Minneapolis:										
1933 (average)	74.4	78.1	74.8	76.9	76.7	75.5	83.2	73.2	79.6	80.5
January 1934	80.4	86.5	83.6	80.2	81.3	77.9	83.7	86.6	83.2	84.2
April 1934	94.7	100.5	96.9	85.9	89.2	93.1	88.4	98.7	90.1	88.6
New Orleans:										
1933 (average)	61.2	66.9	66.0	72.8	73.5	57.1	81.6	69.5	76.0	73.7
January 1934	64.3	69.4	69.1	78.3	78.0	60.4	86.2	71.6	80.7	80.1
April 1934	77.1	81.1	80.1	82.6	84.5	74.6	89.4	80.5	84.8	83.3
New York:										
1933 (average)	85.0	92.4	88.4	101.1	93.3	85.2	90.4	91.0	97.6	106.2
January 1934	97.7	105.4	100.5	111.1	103.6	99.7	105.8	100.2	111.0	118.4
April 1934	101.3	107.7	102.8	110.8	105.4	103.3	105.8	101.8	109.9	116.1
Philadelphia:										
1933 (average)	71.1	75.6	73.0	75.5	74.3	68.5	71.9	75.5	72.8	76.0
January 1934	82.0	89.2	86.6	89.1	86.6	78.2	82.5	91.2	86.2	91.8
April 1934	87.0	92.7	89.2	92.1	90.0	85.0	84.2	92.9	89.2	93.2
Pittsburgh:										
1933 (average)	86.2	93.0	88.3	94.4	87.7	86.5	76.6	91.3	87.9	99.9
January 1934	81.6	88.4	84.7	84.0	81.1	78.9	69.0	89.5	79.2	86.1
April 1934	84.5	92.3	88.7	87.5	85.5	80.9	71.0	95.0	82.4	89.1
St. Louis:										
1933 (average)	87.3	94.0	90.1	97.9	93.2	88.4	96.8	90.2	99.6	102.8
January 1934	92.8	100.5	96.8	101.9	98.0	92.7	100.0	98.5	104.3	106.5
April 1934	101.4	108.9	104.9	105.8	103.7	101.5	102.6	106.3	108.3	109.5
San Francisco:										
1933 (average)	68.4	76.7	74.3	84.7	81.0	66.3	82.1	78.5	85.3	89.5
January 1934	78.5	85.9	83.4	88.0	86.8	76.9	90.3	88.0	91.1	91.7
April 1934	86.7	93.5	92.5	100.8	97.6	86.6	98.7	96.1	102.2	106.5
Seattle:										
1933 (average)	63.4	72.1	69.8	84.6	79.3	58.7	81.5	76.0	81.8	90.0
January 1934	74.7	83.3	80.5	90.7	86.8	71.4	92.5	85.0	91.7	96.2
April 1934	77.5	86.4	83.6	93.6	90.8	73.9	94.5	88.6	94.2	98.6

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Mr. LEWIN. I am not going to duplicate a great many of these statements that have been made. It is getting late and you gentlemen want to go to luncheon pretty soon.

This is from the United States News, published in Washington: In. 1928 there were $2,788,000,000 of construction; in 1933, $300,000,000- As a result of a survey of the United States in our national organizat tion, I can say that today, by and large, there is not over 15 percene of the normal volume of business in the construction industry. Th C.W.A. work helped labor, helped put some employment back, bu so far as actually helping industry at large is concerned, helping our industry and the building industry as a whole, it has done very little good, and we are not much better off than we were a year ago.

The CHAIRMAN. Do you think this bill would be helpful in every way?

Mr. LEWIN. We have gone over it, Senator. There has already been some criticism of it, but, by and large, I believe it is workable. These gentlemen have put a tremendous lot of time on it, and I know they are capable and intelligent. So far as these institutions that are lending money are concerned—or have not lent it—I can tell you that in my home town there are a number of people who do not want to borrow money, but they want to get out of the institutions the money that they have deposited, and which they cannot get. They are willing to put up homes. One contractor told me he had a customer who had $24,000 in an institution. He wanted to draw it out—not all of it, but he wanted to get $8,500. He was told that he could get probably $600 of that money. I have sent down here to the Emergency Council information of that character. Some people are afraid to say very much about it because they are afraid of reprisals. That is an unfortunate situation. The people have money and they cannot get it out. They do not want to borrow money. They only want to get what belongs to them. You can see the effect it is having on the construction industry today.

Senator BARKLEY. Do you think that all titles of the bill, then, constitute a complete plan that would be crippled by the elimination of any title to the bill? Is that true?

Mr. LEWIN. I think we could unqualifiedly endorse it.

I want to say one more thing, Senator, if you please. Speaking of this amortization, we have had in times past 50 to 60 percent first mortgages, and then we had second mortgages. The second mortgages have either been taken over by a builder, who discounted them at a very huge discount, or else he has high-pressured the material dealer to take them. Unfortunately we have a lot of them right now. I can tell you we are cured. We do not want them. A great many of those second mortgages run concurrently with the first mortgage. They have to be paid. It makes a tremendous load for the working man to have to make weekly or monthly payments. If that is amortized over a period of 15 or 20 years in one mortgage, the reduction in the monthly and annual payment is very great, and that relieves the worker from a lot of the burden he is now carrying. That is one of the reasons I think we have had so many foreclosures—the fact that with these first and second mortgages a man was simply not able to carry them, even if he was working, because he had his wages reduced. At a lessened rate he could probably have gotten by.

The CHAIRMAN. Are there any other questions?

Senator BARKLEY. Your answer to my question is "yes" if I understand it. You think the elimination of any one of the titles of this bill would make it incomplete and cripple the effect as a whole?

Mr. LEWIN. Senator, as the gentleman here representing the Federation of Labor said a while ago, you need speed. If you do not get it, you are going to have a lot more C.W.A. workers this winter, and more need for money to come out of the Government.

The CHAIRMAN. What Senator Barkley is after is to know whether you would take away title 2 or 3, or any other part of the bill, or whether you want it all.

Mr. LEWIN. I am in favor of no changes in it. I think these gentlemen have made a complete study and are entirely capable of handling the situation, and I cannot see, in the long run, where it will injure anyone. I am in favor of it as it is.

The CHAIRMAN. Very well. We will have to hurry on, now. Mr. McCarthy, we can give you a few minutes.

STATEMENT OF E. AVERY McCARTHY, REPRESENTING CALIFORNIA STATE REAL ESTATE ASSOCIATION AND OTHER CALIFORNIA INTERESTS

The CHAIRMAN. Mr. McCarthy, please state your name, residence, and occupation.

Mr. MCCARTHY. E. Avery McCarthy; past president of the Los Angeles Realty Board; chairman of the finance and mortgage committee of the Los Angeles Realty Board; director of the California State Real Estate Association; and a member of the National Association of Real Estate Boards.

Mr. Chairman, after an experience of more than 40 years in San Francisco, Oakland, and Los Angeles, as a borrower as well as a lender, and as a builder of small homes, and as a dealer, agent, and realtor almost exclusively in the field of small homes, I offer you my impressions as such, rather than as a financial expert. In these times and under present conditions, I doubt if there is any such animal as an expert.

My company was incorporated in 1892 and has been continuously operating in the small-home field since.

Interest reduction, to my mind, is a foregone conclusion, and any opposing thought to this bill based on opposition of lending companies to lower interest rates should be closely scrutinized by you gentlemen, I believe. More homes have been lost to the small home buyer, in my opinion, by high interest charges and excessive service costs, than from any other reason.

The engine of the old machine of mortgage lending seems to me to need a thorough overhauling, reboring, servicing, lubricating oil, gas, ignition, and new batteries.

Senator BARKLEY. Outside of that it is all right?

Mr. MCCARTHY. Outside of that it is all right; yes. Perhaps you have had a little experience trying to borrow money from them. I do not know. I have.

This bill will not, it seems to me, adversely affect banks and mortgage companies, but will, in the end, stabilize them in a way that they have not apparently been able to stabilize themselves. The effect of this bill will be to shorten the time of complete recovery.

The small home owner should be the backbone of America. In the past he has been overcharged in the cost and price of his home. He

has been given short-time loans that should have been long-time investment paper, and has been put to heavy costs every few years for loan renewals on a loan that should have been, from its very nature, originally on a long-term basis.

The banks, mortgage, and loan companies and their officers with their experience, have known that it would be impossible, under usual and ordinary circumstances, for the small home purchaser to pay for his home in any less time than an average of 10 years. They have, nevertheless, made loans to him on a 1- 2- or 3-year basis, at the end of which time, to his surprise and chagrin, he has had to pay heavy expenses for renewals. I repeat, these loan agencies in the past knew full well that the small home purchaser could not pay up in the short period of time for which they have made their loans.

There is a market now in many American cities for new moderate-priced homes. There are just as many prospective American home buyers who will buy new homes, but who will not buy old or second-hand homes, as there are purchasers of new automobiles as against second-hand automobiles.

This proposed bill will be a boon to tens of thousands who would be individual home owners. In California we need just such a set-up as is proposed by this bill. In fact, we need, and need immediately, just such help and relief as will be afforded by this bill, and by a proposed amendment which is, after all, only an added feature, just to explain the bill, giving immediate action and relief—an added suggestion of the National Association of Real Estate Boards, which was proposed to you and made of record here by Mr. Walter Schmidt, of Cincinnati—I think it was at yesterday's session. This proposed amendment if not a criticism in any respect of the proposed bill, but a whole-hearted approval of the bill itself, and a suggestion to put the general conditions and proposed help into more immediate effect.

We, in California, lack the financial assistance of banks and mortgage companies for loans on new building operations. Mortgage banks and loaning companies do not refuse, but they do not make such loans. That, I think, is very general, gentlemen, throughout the country. That has been my observation. They advertise, "We have money for mortgage loans," but you go to them for those loans and cannot get them.

With an untarnished business record of more than 40 years, my company, a comparatively small real-estate and building corporation, has been refused new building loans in San Francisco and Los Angeles. We could build and sell several hundred new houses right now to the small home owner.

Senator GOLDSBOROUGH. Costing about what?

Mr. MCCARTHY. Costing about $2,000 to $2,500 for what we call a California bungalow, with a selling range of under $4,000. That is the ideal thing for that country, as it does not require the heavier construction that is required in the East.

To this bill all American small home buyers looks for these equitable advantages:

First. Moderate interest rates.

Second. Small amortization.

Third. Long time loans without short periods of expensive renewals.

Fourth. Moderate loan costs.

The bill seems to have been drafted in the most meticulous manner to the purpose and ends desired. Its preamble is a clear and concise statement of its purpose. I am not an expert in legislative documents, but I am told, and believe, that this bill is the finest piece of legislation of this, the Seventy-third Congress, second session.

The force and effect of this bill, as far as hundreds of thousands of individual citizens are concerned, should more than outweight the slight objections of building and loan and other mortgage and banking and financial institutions.

These banks may be helping themselves and helping each other in the present emergency, but are they helping the great general public? Certainly not in building operations.

One of our most astute financial factors, who has given evidence at these hearings, and the president of a life insurance company in which I have been insured for more than 40 years, referred to the recent period as a collapse of the real estate market. I wish he were here now so that I might ask him to correct that statement, because there was no collapse of the real estate market until the collapse of the stock and bond market. As a realtor of 45 years experience I think I can say without fear of contradiction that the collapse of prices and values of real estate in recent years never equaled the collapse of price and selling of stocks, bonds, and paper securities. Based upon the experience of ages, the security of loans on real estate, such as is proposed by this bill, is far more stable, in the long run, than the security of paper securities. Long-term loans on stable securities will take precedence, in the future. This bill is a step in the right direction.

There is an old-time saying which has become an axiom, that real estate is the basis of all wealth. In the last analysis, what factory, railroad, mine, store, shop, or business but what rests upon real estate? Therefore, in the long run, the best stable security should be real estate. The best of that should be the homes occupied by, loved by, owned by, bigger and better Americans. These are the kind of loans and the kind of people, I take it, who would be benefited by this bill.

The CHAIRMAN. We will be glad to put into the record any statement you wish to submit.

Mr. MCCARTHY. Those are all my observations, gentlemen, unless there are some special questions with reference to the particular State or part of the country from which I come that you might be interested in knowing. If anything occurs to you, I shall be glad to answer it.

The CHAIRMAN. It is a very good statement. Thank you.

Senator BARKLEY. Mr. Chairman, I have been handed an additional statement which Mr. Schmidt wants to submit for printing in the record.

The CHAIRMAN. Let it go into the record.

(The additional statement is as follows:)

FURTHER STATEMENT OF WALTER S. SCHMIDT, CHAIRMAN OF THE MORTGAGE FINANCE COMMITTEE OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS, CINCINNATI, OHIO

Mr. SCHMIDT. Mr. Kingsley, as a witness, called into question my statement that the mortgage money of insurance companies now available was for mortgages based on 40 to 45 percent of present depressed

values—a loan which I had stated was not of the type needed to encourage new construction. After the meeting, Mr. Kingsley said that he was sorry he had questioned this statement of mine and granted that his instructions to his representatives were that his company was interested in securing exactly such loans and was not interested in higher percentage mortgages. He said he would correct the record, but I understand left hurriedly without doing so.

There is an undoubted dearth of mortgage money in most urban centers—not all, of course. In my judgment, a large percentage of the total sums formerly held for mortgage investment has permanently disappeared, and the only way to restore sound long-term credit facilities and reduce the rate to borrowers, is for the Government to throw the weight of its credit behind the mortgage structure, not as a taker of mortgages, but as a supporter and protector of the investment itself.

STATEMENT OF ROBERT W. ALDRICH RODGER, PRESIDENT OF THE RUTGERS TOWN CORPORATION, 22 EAST FORTIETH STREET, NEW YORK CITY

The CHAIRMAN. Mr. Rodger, state your name.

Mr. RODGER. My name is Robert W. Aldrich Rodger. I am president of the Rutgers Town Corporation of the city of New York.

The CHAIRMAN. Have you examined this bill, Mr. Rodger?

Mr. RODGER. Yes; I have examined this bill, Mr. Chairman.

The CHAIRMAN. Will you state your views about it, please?

Mr. RODGER. I will state in general what my views are about it, because I just want to mention one specific thing in this connection.

The CHAIRMAN. Very well.

Mr. RODGER. I will make my time as short as possible. I understand that you are about ready to adjourn. I will say briefly that I am altogether in favor of this bill. I consider it to be the most flexible and the broadest measure that has ever been presented to the Senate and the House of Representatives.

What I want to say in particular is this: If this bill goes through it will make possible for me to build almost immediately 45 million dollars worth of housing which has been projected for New York City or Manhattan and been ready to go ahead for nearly 2 years. Two years ago Congress drew an act to stimulate the building of low cost housing and slum clearance. Just prior to the passage of that act I had formed this Rutgers Town Corporation of New York City and collected over 12 million dollars worth of land under option on the lower East Side. I expected to get my loans from the banks. You know what happened then. The bond situation became frozen, or the mortgage situation became frozen, and it was impossible to get loans from the local banks.

After Congress passed this act the R.F.C. was formed and I put in the first application for a Federal loan. We are still before them, and only last Tuesday I appeared before the board of review not only in connection with the Rutgers town Manhattan project but also with another project in Queens to be built on 326 acres of land over there, which is worth some 6 million dollars.

We have altogether 90 million dollars worth of housing to proceed immediately in New York City just as soon as this legislation goes

through, because I believe it will open the way for the local banks to make us those loans, because without the Government guarantee as to principal and interest it will be impossible for the banks or for us to dispose of our bonds.

The CHAIRMAN. Will those mostly be homes?

Mr. RODGER. They will all be homes. The projects on Manhattan will rent for from $6 to $12 per room. The homes in Queens will rent for from $5 to $10 per room.

Senator GOLDSBOROUGH. What will be the cost of the houses? What is the range?

Mr. RODGER. These are multiple dwelling houses, all apartment houses.

Senator GOLDSBOROUGH. All apartment houses?

Mr. RODGER. All apartment houses. You cannot build for the lower income groups without building multiple dwellings. You cannot get the expenses down low enough. It is not feasible. And naturally I am for this legislation. If you are at all interested in it——

Senator GOLDSBOROUGH (interposing). What is the value of this land on these two projects?

Mr. RODGER. The total value of the land is 18 million dollars. We have that land under option and ready to proceed under it without any delays.

If you have seen the United States News this week—I just have a copy with me—it shows the picture of a slum clearance project before and after, and it happens to be my project, if you want to put that in the record.

The CHAIRMAN. We get the News here.

Mr. RODGER. It is on the first page. And this is the only building project for Manhattan. The Municipal Housing Authority, which was recently formed in Manhattan, is going to build over in Brooklyn. They are very much limited as to the amount of buildings that they can do. They would not make a dent in our unemployment problem on Manhattan. We have over 200,000 men in the building trades who are unemployed at this moment.

The CHAIRMAN. In New York?

Mr. RODGER. In New York City. And we will employ over 50,000 men on these two jobs locally, to say nothing of several times that number in other sections of the country.

Now, I thought it would be interesting to you to know that something specific is ready to start the moment this legislation is passed.

Senator GOLDSBOROUGH. I assume from what you say you take no exceptions to any of the titles of the act, but you approve the thing in the whole?

Mr. RODGER. I approve the thing in the whole. I take no exceptions, because I think the bill is the broadest measure and the finest for employment that has ever been conceived; and I have seen them all.

The CHAIRMAN. That is very helpful.

Senator BARKLEY. Is your project for renting entirely, or do you propose to sell some of these?

Mr. RODGER. The project is for renting entirely. We can not sell multiple dwellings. We have tried to sell them to the poor. There has been some selling of dwellings to the poor on the cooperative basis, bit it has not been very successful.

The CHAIRMAN. What size are the multiple dwellings?

Mr. RODGER. On Manhattan they run from 8 to 12 stories. In the Queens project they are mostly three-story buildings. You see, the Queens land is 50 cents a square foot and the Manhattan land is $1.10 a square foot, and that makes the difference. We bought that land at a price that is almost equal to its present mortgage value.

Senator BARKLEY. That comes under title II, the mortgage insurance feature?

Mr. RODGER. Yes; that is right. My secretary here wants me to tell you that we have passed the R.F.C. board of engineers; that is, the engineers advisory board of the Reconstruction Finance Corporation, and I think we had a very successful session at the Board of Review Tuesday. At least they looked that way.

The CHAIRMAN. That is very good. We are much obliged to you.

I received a latter here. I have not read it over very carefully, but it seems to me it has some statements of fact in it relevant and it may be helpful. I would like to have that inserted in the record. It is from Mr. Walter F. Ring of New York.

(The letter presented by the Chairman is as follows:)

JAMAICA, N.Y., *May 21, 1934.*

Hon. DUNCAN U. FLETCHER,
Chairman Senate Committee on Banking and Currency,
Senate Office Building, Washington, D.C.

DEAR SENATOR FLETCHER: I desire to present to your committee a few salient facts and suggestions for the members' consideration in connection with the hearings on the National Housing Act (S. 3603).

Since early October 1933, I have been furnishing facts and urging the enactment of legislation primarily to permit desirous new homeowners to build their homes now and thus help the unemployment situation. The facts in detail and suggestions have been submitted to the Honorable William F. Brunner, Member of Congress from New York, the Honorable John H. Fahey, and others. I will be as brief as possible in order to get outstanding facts before your committee.

I feel qualified by 25 years of practical experience in the active participation in the development of Queens Borough; by interest in the erection and financing of over 5,000 homes and a friendship and/or acquaintance with the officers of many of the loaning institutions of the city.

There exists today a demand for new homes by thrifty, desirous home owners who have their equity in hand. The majority of these potential owners cannot be forced to purchase the distressed and repossessed homes which glut the market; there are many human reasons for this fact, but notwithstanding the demand for new homes, the loaning institutions, as a class, are attempting against their own best interest, to prevent the erection of new homes so as to force the sale of their distressed holdings. This policy is as unsound as if it were decided not to manufacture new automobiles until the second-hand market was about depleted.

The size of the demand for newly constructed homes is debatable; surveys will not accurately determine it, but there is no question but that the demand is of sufficient size that it can be kindled into a cheering blaze for distressed labor.

The only factor holding back this instrument of gainful reemployment is mortgage money.

I can submit confessions of the impotency of the loaning institutions; I can submit evidence of their objecting to Government trespassing on their presumed preserves. I know from personal contact, by observation and by confessions that private investors in mortgages and certificates will be out of the market for several years. I know, by the records, that the savings in thrift institutions, during the past year, have been withdrawn faster than new savings were deposited; I know from contact and observation that equity money for the organization of new mortgage factors is sadly lacking. I know that many loaning institutions are borrowers from the Reconstruction Finance Corporation, which precludes them from being classed as willing lenders. I know that a normal flow of funds into the loaning institutions will take place only when labor is reemployed at gainful occupation.

Thus the paramount job is to put men to work and I insist that several million men can be put to gainful occupation to meet a legitimate demand, not a specu-

lation, not some utopian dream, but a real honest existing demand and a latent demand that can be stimulated by favorable terms.

This reemployment will have favorable repercussions on the chaotic mortgage situation, on the distressed home situation and will help save the present good work of the Home Owners' Loan Corporation from developing into a catastrophe of "Government-owned shacks" which will blight the neighborhood.

I stress the general opinion among practical real-estate men, in this, the fastest growing home community in the United States, that the Home Owners' Loan Corporation is engaged in what may prove to be the wholesale purchase of distressed homes at inflated values.

It requires no vivid imagination to picture the results if, because of unemployment, the home owner continues to be distressed. The Government will not care to dispossess him, and the owner being without the means to maintain repairs, etc., the home will soon become a "Government shack" and a blight on the neighborhood. What was planned as constructiveness may turn out to be destructive. Every effort must be made to prevent the occurrence of this situation.

The first step to help the distressed home owner has been taken and the second, and very important step, is about to be taken.

It is a theory that many home owners in these times will borrow money for modernization. They may borrow for necessary and pressing repairs, but it is a fact that, if they are distressed, they will not seek new burdens. The thrifty owner will, as a rule, make repairs and modernize only out of cash in hand and he will and is doing it, more or less, right now. I know this by personal observation and contact, yet I am not opposed to helping the exceptions to the rule.

To stress repairs and modernization in preference to new home construction is "putting the cart before the horse."

New home construction for worthy, thrifty desirous new home owners can only be accomplished, at the present time, by sound direct substantial Federal help, and any involved plan which complicates the operations will only defeat the purpose.

Get legitimate home construction under way in the right way to meet a real demand, not a speculation, and the picture of "Government [redacted] will not materialize.

It is a theory and not a fact that the present lending institut[redacted] make loans sufficient to meet the situation. They will make a [redacted] their face", but beyond that they are so mired that it will take [redacted] they become untangled.

The National Housing Act, now under consideration, provides many commendable long range features which I heartily approve but it will not, in my opinion, take care of the immediate requirements to assist the desirous worthy new home owner.

The act provides for the organization of national mortgage associations with not less than $5,000,000 initial capital, subject to the approval of the Federal Home Loan Bank Board. In my opinion, such organization, in any appreciable number, in these times could not be organized in time to save the situation. Individual men or groups could in the past use their telephones and raise the money, but not today. Given time to acceptably organize, they will function for the benefit of the home owner. A reduction of the initial capital to $1,000,000 would help, but the red tape of organization would delay them from functioning until the spring of 1935.

I suggest an amendment to provide, that for a period of 18 months, from the date of enactment, the Home Owners Loan Corporation be empowered to use its present facilities to make direct mortgage loans to desirous new home owners up to 80 percent of appraisal based on prevailing costs. Interest at 4 percent and monthly amortization so as to fully repay the indebtedness within 20 years. The loans may be made by fully guaranteed 3 percent bonds which the hone owner could use in paying for construction.

Responsible home builders do not ask for direct help, on the other hand, they can assist by taking the bonds in payment for work performed, but they do ask that the Government bridge the gap caused by the failure of the loaning institutions to function, and this help is to go to the desirous, thrifty home owner.

I am mailing a copy to the Honorable John H. Fahey and the Honorable William F. Brunner.

Respectfully submitted.

Very truly yours,

WALTER F. RING.

The CHAIRMAN. There is a gentleman here, Mr. W. J. McGuckin, wants to be heard.

STATEMENT OF WILLIAM J. McGUCKIN, JR., PHILADELPHIA, PA.

Mr. McGUCKIN. Mr. Chairman, it will not take me very long, because I am just a home owner who has had some experiences.

The CHAIRMAN. State your name and residence and occupation.

Mr. McGUCKIN. My name is William J. McGuckin, Jr. I am in the chemical business. My address is 5522 Marshall Street, Philadelphia, Pa.

Mr. Chairman, last April 17—that was a year ago, 1933—I sent a plan to Mr. James A. Farley for an enactment of law for each home owner to be given the privilege of borrowing $1,000. I will read the letter to you just as I sent it, and you will find out it will cover all circles of our economic life.

The CHAIRMAN. Do you want that inserted in the record?

Mr. McGUCKIN. Yes, sir.

Senator BARKLEY. I suggest that be put in the record, because it might take too long to read it.

Mr. McGUCKIN. It is only small, Mr. Chairman. Dated April 17, 1933:

Mr. JAMES A. FARLEY, *Washington, D.C.*

MY DEAR MR. FARLEY: Referring to inflation of currency, credit, and bringing about the distribution of same among the people and to all circles, kindly see the President at once on the following: Have the Government advance $1,000 to each owner of a home or dwelling, same to be a first lien upon the property, with the understanding all taxes should be paid upon the property, the balance left of the $1,000 to be returned to the owner for repairs, etc.

This will replenish moneys in the treasuries of all cities, counties, States, and so forth, open up all closed banks, trust companies, and be beneficial to every circle within our economic life.

With best wishes, I am, very truly yours,

WILLIAM J. McGUCKIN, Jr.

I received a reply from Mr. Farley April 27, 1933. By the way, I announced this in the Mayflower Hotel last June 10, 1933. Mr. Farley's reply was as follows:

Mr. WILLIAM J. McGUCKIN, Jr.,
Philadelphia, Pa.

MY DEAR MR. McGUCKIN: I have your interesting suggestion of April 17 as to a way in which to relieve the home owners' condition. I appreciate your having written me.

Sincerely,

JAMES A. FARLEY.

I might say, Mr. Chairman, that if a campaign was run similar to our Liberty Loan campaign for the Government to loan the money to the people just as the people loaned the money to the Government, I have every reason to believe that the home owner would save his home. I have lost two homes myself with first mortgages on them because of the fact that I could not borrow any money. One home I had purchased for $3,500. It was assessed at $2,700. I had paid in the building and loan association on the second mortgage for over 12 years, and I had paid in on the first mortgage for over 7 years. If it was possible at that time for me to borrow $1,000 I could have saved that home, but instead that home went at a price of $1,200 at auction sale, because I could not raise the money.

Senator GOLDSBOROUGH. I was just wondering whether you approved this bill we have under discussion.

Mr. MCGUCKIN. What we need today in all circles of our economic life is money, and we need to get it as quickly as possible. I have every reason to believe that the Federal act has been changed so that national banks can loan money on real estate now. I have every reason to believe that it is more a method of procedure than anything else that we need. We have 10 million homes in the United States. If every home owner took it in a patriotic way to borrow a thousand dollars and repair their homes it would mean a circulation of currency practically over night of 10 billion dollars.

I believe also that this could be worked out in the way similar to the parable in the Gospel of everyone "receiving a penny a day." Whether they had a $14,000 home or whether they had a $5,000 home, that $1,000 to pay for the building would cover every circle. I really believe also the Home Owners' Loan Act, through proclamation of the President, could work it out in the method that I say without any other enactment of law.

The CHAIRMAN. Very well. We are very glad to have your views. We will close the hearings now.

Mr. MCGUCKIN. I hope I have not intruded in the least, Mr. Chairman. I mean the best.

The CHAIRMAN. You are all right. We are glad to have your statement.

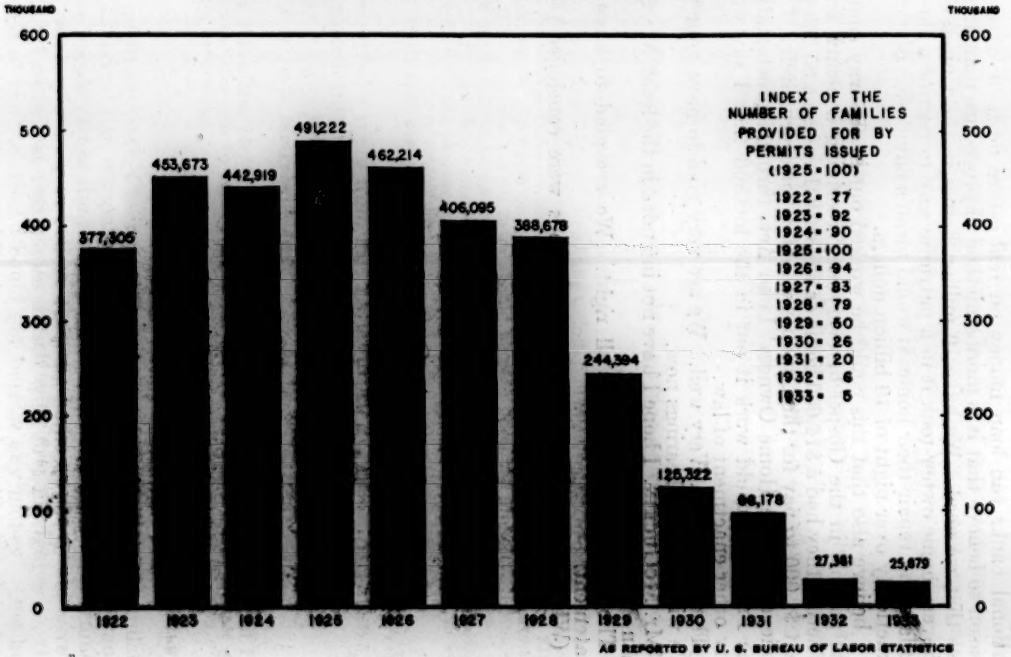
(Whereupon, at 1:30 p.m., the hearings were concluded.)

59284—34——28

PERMITS ISSUED FOR RESIDENTIAL BUILDINGS IN 257 IDENTICAL CITIES

SHOWING NUMBER OF FAMILIES FOR WHICH NEW HOMES WERE PROVIDED

(NO DATA ARE AVAILABLE FOR RURAL OR SUBURBAN AREAS THROUGHOUT THE COUNTRY)



(Chart referred to on p. 217.)

Dated at Riverside (City) Illinois (State) December 1, 1932 (Date)

To JOHNS-MANVILLE SALES CORPORATION
22 East 40th Street, New York, N. Y.

Gentlemen:

I (we) make the following statement of all my (our) assets and liabilities at the close of business on November 30 1932, and give other material information for the purpose of inducing you to purchase my (our) notes.

ASSETS			LIABILITIES		
Cash in Bank	1781	98	Notes Payable to Bank	1000	00
Cash on Hand	46	95	Notes Payable other than Bk	NONE	
Accounts Collectible	3886	41	Open Accounts Payable	1864	72
Notes Good and Collectible	156	80	All Other Debts		
Merchandise at Cost	1158	78			
Total Current Assets	6423	78	Total Current Liabilities	2864	72
Real Estate and Buildings	7800	00	Mortgage on Real Estate	2500	00
Machinery, Fixtures, Tools	1214	86	Mortgage on Stock		
Other Assets					
TOTAL	15,138	64	TOTAL	5364	72

Sales for period from Jan. 1, 1931 to Dec. 31, 1931 $ 39,916 92
Expense same period $ 35,213 46 Net Profit same period $ 4,704 74
Are any of the above assets pledged or assigned as collateral, or are any of the above liabilities secured by collateral? No If so, give amounts and all details

List names of Finance Companies with whom you have dealt, and amount of notes discounted with each now outstanding. Riverside Discount Co. Riverside, Ill $ 962 00 $

Individual Venture Partnership Corporation Yes If incorporated, what state? Ill. When incorporated March 1928 How Long in Business

Fire Insurance carried on Merchandise $ 2800 00 On Buildings and Equipment $ 10,000 00

Name of Bank First National Address Riverside, Ill.
" " " " "

Trade References: Name Burth Lumber Co. Town Riverside State Ill.
" " " Smith Metal Co. " Milwaukee " Wis.
" " " E.V.Cruso " Urbana " Ill.

Description and Location of Real Estate:

Title in Name of	Cost	Market Value	Mortgage
Rowe Roofing Co.	$ 7800 00	$ 8000 00	$ 2500 00
	$	$	$

Names of Officers, if corporation, or partners:

Full Name	Address	Title, if any
J.G.Rowe	148 Oak St., Riverside, Ill.	Pres.
L.E.Rowe	810 Brinkley Pl., Riverside, Ill.	Treas.
H.H.Frank	417 Main St., Riverside, Ill.	Secy.

In consideration of the purchase of notes from me (us) you shall remit to me (us) or the endorser on the note, 100% of the amount thereof. In the event that I (we) owe the Johns-Manville Sales Corporation or any other subsidiary of Johns-Manville Corporation, you shall remit to them for my (our) account, all other conditions remaining the same.

I (we) hereby certify the above statement is correct, representing my (our) condition on December 1, 1932 Firm Name Rowe Roofing Co.

Witness: A.H.Avery By J. G. Rowe, Pres
(Title, if any)

The Financial Statement

(Form No. X—330)

(This chart and the four following are a part of pamphlet of the Johns-Manville Co. beginning on p. 374.)

AGREEMENT

Date December 15, 1932

To Rowe Roofing Co,
(Contractor)
Riverside, Ill.
(Address)

Dear Sir(s):—

I (we) hereby agree to purchase the following material and authorize you to furnish all labor necessary to install the material, construct and place the improvements described herein on building located at No. 467 So. Allyn street
Riverside, Ill.
(City and State)

SPECIFICATIONS

15 squares of Johns-Manville
#35 Rigid Asbestos Shingles
Color—Mottled Blue-Black
all necessary copper flashings
etc., to re-roof Dwelling
at above address.

For the sum of $ 332.40

This agreement becomes binding upon you only upon written acceptance hereof by your principal or authorized officer and upon such written acceptance this shall constitute the entire contract and be binding upon the parties hereto, there being no covenants, promises or agreements; written or oral, except as herein set forth.

The undersigned agrees to pay the above total as follows:

Cash $ 30.00 Balance of $ 302.40 to be represented by an installment note payable in twelve equal monthly installments, the execution of which by the undersigned shall be deemed to be full and conclusive evidence of the satisfactory completion of the work and fulfillment of all of the specifications contained herein.

IN WITNESS WHEREOF the undersigned has (have) hereunto set his (their) hand(s) and seal (s) the day and year first above written.

Joseph F. Warner L. S.
Grace A Warner L. S.

The Agreement or Contract with the Customer

(Form No. X—331)

$ 302.40 Date December 25, 193 2.

For value received, I (we) promise to pay to the order of Rowe Roofing Co., Riverside, Illinois (Contractor's Name)

Three hundred two and 40/100 Dollars in twelve equal consecutive monthly instalments, beginning one month after date hereof, at the office of JOHNS-MANVILLE SALES CORPORATION, 22 East 40th Street, New York, N. Y.

Upon non-payment of any instalment when due, all remaining instalments shall immediately become due and payable. And, if allowed by law, upon non-payment of this note at maturity, 15% of the amount due shall be added for attorney's fees if placed in the hands of an attorney for collection.

Signatures of Joseph F. Warner (Husband)
Grace A. Warner (Wife)

Post Office Address 467 So. Allyn St. (P. O. Box) or (R. D. No) or (No) (Street) Riverside (City) Ill. (State)

TO WHOM IT MAY CONCERN: Date December 27, 193 2.

We hereby certify that we have today issued to Rowe Roofing Co. (Name of Contractor) a note for $ 302.40 which represents the balance due for article (s) (and materials) which the aforesaid contractor has delivered and installed in our premises in a satisfactory manner.

Joseph F. Warner (Husband)
Grace A. Warner (Wife)

Roy O. Brown (Signature of Witness)

385 William St. Riverside, Ill. (Address)

Certified Correct
Rowe Roofing Co. (Name of Contractor)
By J. B. Rowe
Title: Pres

DETACH HERE. CONTRACT IS SIGNED AND DATED AS OTHER PAGES OF JOHNS-MANVILLE SALES CORP. CO-OPERATORS' CONTRACT PRINTED HERE

CURRENT INFORMATION
PURCHASER'S STATEMENT

Date December 15, 193 2.

PURCHASER Joseph F. Warner 467 So. Allyn St. Riverside, Ill. MARRIED? Yes (Husband) (Wife)

AGE 36 EMPLOYED BY Bemis Electric Co. 319 Main St. Riverside HOW LONG? 6 yrs (Name of Employer) (Address of Employer) (Length of Time)

POSITION Auditor ADDRESS OF APPLICANT 467 So. Allyn St. Riverside, Ill.

RENT IS OWNED BY Joseph F. Warner MONTHLY RENTAL $ 10.00 DUE ON THE 1st OF EACH MONTH YEAR PURCHASED 1927

AMOUNT DUE ON 1st MTG. $ 1,500 AMOUNT DUE ON 2nd MTG. $ 1,000.00 DUE ON OTHER MORTGAGE, IF ANY $ None

HOLDER OF FIRST MORTGAGE Federal Savings Bank Riverside, Illinois

HOLDER OF SECOND MORTGAGE James R. Galloway 62 Forms St. Riverside, Ill.

NAME AND ADDRESS OF YOUR BANK First National Bank Riverside, Ill. Federal Savings Bank, Riverside, Ill.

ARE YOU MAKING INSTALMENT PAYMENTS TO OTHERS? Yes

TO WHOM Bagenal Radio Co. Riverside, Ill. Walter P. Clark 230 No. Michigan Ave. Chicago, Ill. Ernest H. Martin, 412 Easton Ave. Richside, Ill.

BUSINESS REFERENCES: GIVE TWO

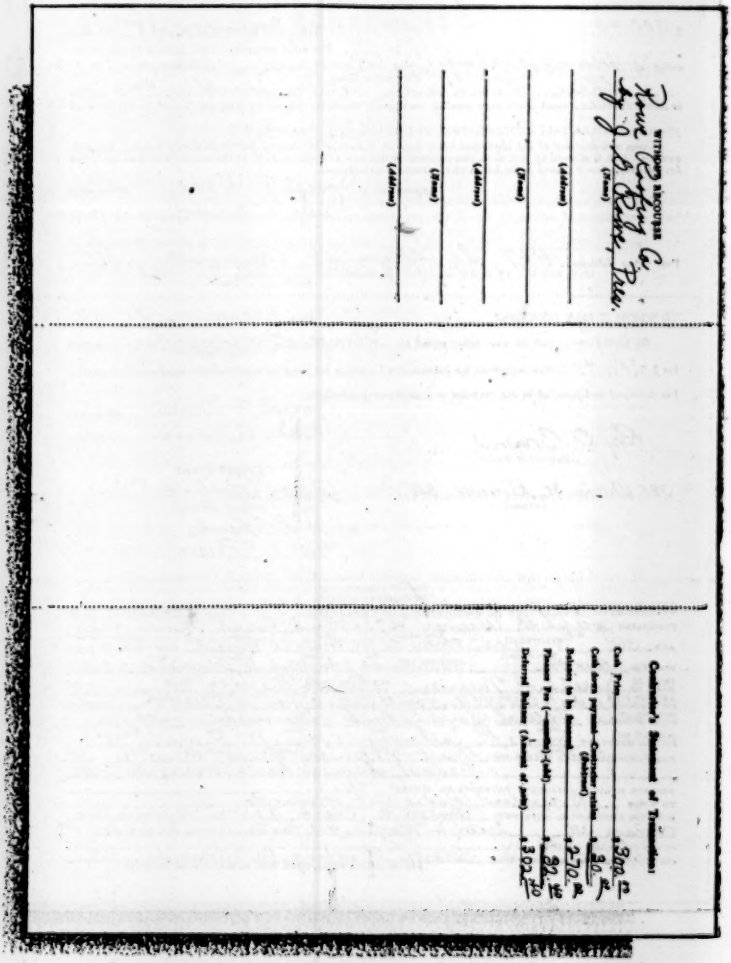
OTHER COMAKER (IF ANY)

CONTRACTOR'S NAME AND ADDRESS Rowe Roofing Co. Riverside, Ill.

(USE INK OR TYPEWRITER. NOTE WITH ALTERATIONS NOT ACCEPTED)

The Purchaser's Statement, Completion Certificate and Note (see over)

(Form No. X—332)



Reverse side of the Note

Date Dec. 1, 1932.

TO: Johns-Manville Sales Corporation
22 East 40th Street
New York, N. Y.

In consideration of your purchasing of me (us) from time to time instalment notes of my (our) customers without recourse to me (us), I (we) hereby agree that in the event you receive any complaint or complaints as to the quality of my (our) workmanship from one or more of my (our) customers whose note or notes you have purchased of me (us), and arising out of work performed by me (us) for such customer or customers, I (we) will immediately adjust such complaint or complaints to the satisfaction of the customer or customers, or failing to do so, will repurchase the note or notes paying therefor the amount of any unpaid balance thereon.

Signed Rowe Roofing Co,
By J. D. Rowe, Pres.
Address 32 Main St,
Riverside, Ill.

Witness:
L. K. Carmichael

Guarantee of Workmanship

(Form No. X—403)

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